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25 July 1984

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ECONOMIC AND INDUSTRIAL AFFAIRS**

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TIMETABLE FOR NATIONAL ECONOMIC, BUDGET PLAN ISSUED

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 15, 21 May 84 pp 181-187

[Order on the Time Schedules for the Preparation of the 1985 National Economic Plans and the Budget Plan of 17 May 84, signed by H. Klopfer, member of Council of Ministers and state secretary, State Planning Commission]

[Text] Article 1

As per the Order of Planning of the GDR National Economy 1981-1985 - Planning Order¹ - and in coordination with the Minister for Finance, the time schedules included in the attachment are fixed for the preparation of the plan drafts for the 1985 national economic and budget plans by state organs, combines, economy managing organs, enterprises and facilities.

Article 2

In their sphere of responsibility, state organs, combines and economy managing organs organize the plan discussion and the preparation of the plan drafts consonant with the joint directive of the SED Central Committee, the GDR Council of Ministers and the FDGB Federal Executive Board on the preparation of the 1985 national economic plan. They ensure the cooperation of enterprises and facilities and the steady collaboration of all management levels in the process of preparation of the plan drafts, including the orderly coordination between enterprises, the competent local councils, foreign trade enterprises, bank organs as well as the balancing or balance assigned organs, and take all the necessary decisions.

(2) As per the time schedule for the planning procedure, combines, economy managing organs and district councils decide the dates for conveying the state tasks to their subordinated combines, enterprises and facilities as well as the dates for the latter's submission of the plan drafts. They must make sure that the enterprises of combines directly subordinated to the ministries and the bezirk managed combines have at least 8 weeks for the preparation of their plan drafts. State organs, combines and economy managing organs must ensure that the dates for the submission of planning documents to other spheres of responsibility are observed, and so are the dates for coordination with them and for handing over the plan drafts to the superordinated organ.

1. Attachment to Order of 28 November 1979 (Special Issue No 1020 a-r, GESETZBLATT) in the version of Order (No 1) of 20 April 1981 on Supplementing the Order of Planning of the GDR National Economy 1981/1985 (GBI I No 14 p 149), Order No 2 of 29 January 1982 (GBI I No 5 p 109), Order No 3 of 19 April 1982 (GBI I No 18 p 365), Order No 4 of 31 March 1984 (GBI I No 11 p 128)

Article 3

(1) This order takes effect upon publication.

(2) Losing effect at the same time is the Order of 26 May 1983 on the Time Schedules for the Preparation of the 1984 National Economic Plan and Budget Plan (GBI I No 14 p 153).

Attachment to the Preceding Order

Time Schedule for the Preparation of the 1985 National Economic Plan and the Budget Plan

Publication of State Assignments and Submission of Plan Drafts

1. Publication of state assignments

- to the combines directly subordinated to the ministries, economy managing organs, technical organs of district councils, Association of GDR Consumer Cooperatives (for the trade) 24 05 1984
- to the kreis councils 28 05 1984
- to the foreign trade enterprises by the Ministry for Foreign Trade (specific indices for foreign trade) 01 06 1984

2. Delivery of State Assignments, differentiated by combines, regarding materials use keys and the norms of energy, materials and packaging stock keeping (hereinafter designated consumption and stock norms as per Planning Order, Part M (Special Issue No 1020/1 m of the GESETZBLATT), Section 21 No 2.1 Paragraph 3 and letter 2.2 Paragraph 6 (pp 6-7)

- By the ministries of the consumer sectors or the ministries responsible for accounting (for norms of supply-side stock keeping)

to the ministries responsible for accounting and the State Planning Commission as well as to the Ministry for Coal and Energy, the Ministry for Chemical Industry, the Ministry for Materials Management and the Ministry for Glass and Ceramics Industry (hereinafter designated the ministries confirming consumption and stock norms and energy consumption norms to the study group on rational energy use at the GDR Council of Ministers 01 06 1984

As well as the norms

- By the ministries responsible for accounting and energy norms by the study group on rational energy use at the GDR Council of Ministers

to the subordinated accounting organs or organs responsible for accounting 06 06 1984

3. Delivery of plan drafts in abbreviated nomenclature as per Planning Order Part K Section 14 No 3.3 (p7)

-- from the combines directly subordinated to the ministries for industry, construction and transportation, the district economic councils, district construction offices and technical organs for transportation at the district councils as per No 3.3.1.

to the competent ministries, the State Planning Commission, the Ministry for Finance and the GDR State Bank^{1,2} 30 07 1984

-- from the district councils the indices to the plan draft in abbreviated nomenclature, fixed as per No 3.3.5 Paragraph 3 by the other technical organs and the competent ministries

to the competent ministries 30 07 1984

-- from the ministries and other central state organs and district councils

to the State Planning Commission, the Ministry for Finance and the GDR State Bank^{1,2} 10 08 1984

4. Delivery of the plan drafts in abbreviated nomenclature to the budget plan as per Planning Order Part K Section 14 No 3.3

-- from the district councils

to the Ministry for Finance 06 08 1984

-- from the ministries and other central state organs

to the Ministry for Finance 10 08 1984

5. Incorporation of the central decisions on plan drafts in the complex plan drafts of combines, district councils and central state organs, and delivery of the complex plan drafts

-- from the kreis councils

to the district councils 05 09 1984

-- from combines directly subordinated to ministries and economy managing organs³

to the competent ministries and from the Association of GDR Consumer Cooperatives (for trade) to the Ministry for Trade and Supply
as well as

to the State Planning Commission and other state organs, the documents as per Planning Order Part K section 14 No 3 and Part N section 26 No 5.6 28 09 1984

-- from the technical organs of district councils⁴
to the competent ministries 24 09 1984

-- from the district councils
to the State Planning Commission and the Ministry for Finance² 24 09 1984

-- from the district councils, the drafts of district budget plans in coordination with the plan drafts
to the Ministry for Finance 02 10 1984

-- from the central state organs
to the State Planning Commission, the Ministry for Finance and other central state organs,^{2,4,5} 08 10 1984

Regional Reconciliations

6. Delivery of Selected State Assignments (Form 0500) as per Planning Order Part P section 30 No 3.1.2 (p 7)
- from combines and facilities directly subordinated to the ministries and the economy managing organs (per enterprise or facility)
to the competent district council 01 06 1984
- from enterprise and facilities for their regionally separate enterprise parts
to the competent kreis council 06 06 1984
7. Delivery of regional plan data as per Planning Order Part P section 30 No 3.1.4 (pp 8-9) including the reproduction accounts of the social labor capacity
- from centrally managed enterprises, including combine enterprises and facilities as well as
-- from enterprise parts
to district or kreis councils respectively
as well as per Part F section 7 subsection B No 4.1.2 Paragraph 7 (p 18) and Part N section 23 subsection B No 4.2 (p 12)
- from combines, enterprises and facilities
to kreis councils 26 06 1984

8. Notification or precise definition of construction needs to the balancing organs 08 06 1984
as well as information on construction balance decisions to investment customers as per the discussions on the fixing of the investment projects to be carried out in 1985 17 08 1984
9. Transport need reports as per Planning Order Part D section 4 No 2.2 (p 6) and Transport Balance Order of 31 December 1981 (GBI I 1982 No 7 p 154) Articles 5 and 6
-- from enterprises and facilities
-- to the organs of public transportation agencies or kreis or city councils 20 07 1984
10. Reconciliations of measures and resources of combines, enterprises and facilities as per Planning Order Part P section 30 No 3.1 (p 6) with the district or kreis councils as well as on polytechnical performances with the kreis councils as per Planning Order Part F section 7 No 3 Paragraph 6 (p 5) 17 07 1984
11. Issue of balance decisions on manpower and school leavers for professional training by district or kreis councils 20 07 1984
12. Delivery of selected indices of performance development (form 0500) on the preparation of comprehensive discussions in districts as per Planning Order Part P section 30 No 3.2 Paragraph 2 (p 11)
-- from combines directly subordinated to the ministries and economy managing organs per enterprise or facility
to the competent district councils, to the super-ordinated ministry and the State Planning Commission 28 09 1984
as well as delivery of selected indices combined, by districts and per enterprise for the enterprises to be included in the comprehensive discussions
-- from the industrial ministries and the Ministry for Construction
to the State Planning Commission 05 10 to 09 10 1984
13. Conduct of comprehensive discussions in the districts October 1984

Planning of Materials Management as Well as Materials, Equipment and Consumer Goods Accounting

14. Supply-side account information:

--from combines and economy managing organs

to account organs or those assigned accounting and superordinated central state organs

--from collection points of secondary raw materials

to the locally competent enterprises of metal dressing (metallic secondary raw materials and the locally competent secondary raw material recovery VEB (non-metallic secondary raw materials)

--from collection points of waste products

to the competent accounting organ and the district councils 04 07 1984

15. Consumer-side demand information including demand justifications

--from the main users

to the fund holders 04 07 1984

--from the fund holders (including the wholesale trade in means of production⁶ and consumer goods)

to the accounting agencies and those in charge of accounting and to the superordinated central state organs as well as within the purview of central nomenclatures of consumption of stock norms and the materials use keys to the ministries confirming consumption of stock norms

18 07 1984

--from the supply sectors

to the ministries responsible for accounting and, for information, to the State Planning Commission to the extent of the S and M headings to be planned consumer-side as per the account register

22 08 1984

16. Reconciliation of the accounting agencies or those in charge of accounting with the combines or economy managing organs as superordinated organs of the producers or customers as well as with the collection points for secondary raw materials and waste products and the fund holders (including the wholesale trade in means of production and consumer goods) or supply sectors on the basis of state assignments. (The accounting agencies or those in charge of accounting agree a time scale of the dates with the fund holders, coupled with observation of the final date)

20 08 1984

17. Delivery of proposals with respect to the improved consumption norms including demonstrable savings combined by energy sources, raw and other materials and packaging

--from combines directly subordinated to the ministries, economy managing organs and district construction offices

to the superordinated ministries and the ministries confirming consumption norms and, for energy consumption norms, to the study group on rational energy use at the GDR Council of Ministers

18 07 1984

--from the ministries

to the ministries confirming use norms, the State Planning Commission, the ministries responsible for accounting, and for energy consumption norms, to the study group on rational energy use at the GDR Council of Ministers

10 08 1984

18. Delivery of proposals on improved stock norms, reconciled with the user sectors

--from the agencies in charge of accounting or accounting agencies

to the ministries responsible for accounting

18 07 1984

--from the ministries responsible for accounting

to the ministries confirming stock norms and the State Planning Commission

10 08 1984

19. Information about the envisaged satisfaction of needs from state funds as per the balance drafts

--from the accounting or account assigned organs

to the fund holders

27 08 1984

20. Reconciliation of the ministries and other central state organs with the yield and supply sectors regarding balance drafts as per the state plan indices and the consumer-side demand information for state plan headings and other centrally stipulated headings as well as of the Ministry for Materials Management with the account sectors on the balance drafts for the headings of the central nomenclature for secondary raw materials and waste products as per attachment 2 of the balance register

21 09 1984

21. Confirmation and delivery of the improved consumption norms and stock norms

--from the ministries confirming consumption norms and stock norms and, for energy consumption norms, from the study group on rational energy use at the GDR Council of Ministers

to the State Planning Commission, the ministries of the consumer sectors and the ministries responsible for accounting

31 08 1984

22. Delivery of consumption norms and stock norms differentiated by combines

--from the ministries of the consumption sectors or the ministries responsible for accounting (for norms of supply-side stock keeping)

to the ministries responsible for accounting, the State Planning Commission and the ministries confirming consumption norms and stock norms and, for energy consumption norms, to the study group on rational energy use at the GDR Council of Ministers

10 09 1984

--from the ministries responsible for accounting

to their subordinated accounting agencies or those in charge of accounting

17 09 1984

23. Information on the planning and accounting of selected equipment and plant as well as component supplies for investment projects with a total value exceeding M5 million, for other selected investment projects and plant export projects as per Planning Order M section 22 Nos 2.4 and 4.3 (pp 32, 34 and 44)

a) Consumer-side demand information

--from the fund holders of the investment customers or general or main contractors as well as the combines of plant construction

to the central state organs and the State Planning Commission

as well as

--from the fund holders

to the accounting agencies or those in charge of accounting

13 07 1984

- b) Notification of the material need for important plant and equipment to the suppliers

for these investment projects by the fund holders of the investment customers or general or main contractors

for the export of plant by the combines

02 07 1984

- c) Balancing proposal
--from the supply enterprises
to the accounting agencies and those responsible
for accounting 13 07 1984
- d) Reconciliation of the demand and delivery of the
accounting proposals
--from the accounting agencies or those responsible
for accounting
to the ministries responsible for accounting and
the State Planning Commission 03 08 1984
24. Yield and demand for performances of the advertising setup
--from producers and customers
to the accounting organ 02 07 1984
as well as information on the envisaged satisfaction of the
demand
--from the accounting organ
to the central and local state organs as well as social
facilities 20 09 1984
- Reconciliation of Foreign Trade Assignments
25. Reconciliation of the combines directly subordinated to the
ministries and economy managing organs for export and the
accounting agencies and those responsible for import, with
foreign trade enterprises 30 07 1984
If the foreign trade enterprises are part of combines, the
latter independently schedule the date of the reconcilia-
tion within the framework of the dates fixed by this order)
26. Reconciliation of selected foreign trade enterprises with
the accounting organs of transportation on foreign trade
transport needs and goods transshipment services 16 08 1984
- Reconciliation With Bank Organs
27. Submission of comprehensive economic plan information and the
project or title lists for investments
--from enterprises and facilities
to the competent bank organ 23 08 1984
The competent bank organs must decide the date of reconcilia-
tion together with the enterprises.

28. Reconciliation of the combines directly subordinated to the ministries and the economy managing organs with the bank organs 20 09 1984

Submission of the cover page and lists of headings or EDP [electronic data processing] form lists for investments as per the discussions on fixing the investments to be carried out in 1985 as well as surveys of major overhauls

29. Submission of the cover page for investments (form 0725) as per Planning Order Part L section 20 Nos 3.4 and 3.5 (p 37)

-- from the combines and economy managing organs

to the central state organs and district councils 28 09 1984

-- from the central state organs and district councils

to the State Planning Commission 08 10 1984

30. Submission of the lists of headings or EDP form lists

a) for investment projects including the compensation projects to be carried out and prepared as per Planning Order Part L section 20 No 8 survey (II) Nos 1,3, 4 and 5

-- from combines and economy managing organs

to the central state organs or district councils⁷

-- from the central state organs and district councils

to the State Planning Commission and other central state organs as well as the competent district councils⁷

b) for investment projects with a total value of less than M5 million as per Planning Order Part L section 20 No 8 survey (II) No 2

-- from combines and economy managing organs

to the central state organs and district councils 28 09 1984

31. Submission of the summarizing survey of investment projects up to M5 million as per Planning Order Part L section 20 No 6

-- to the State Planning Commission

as well as

Submission of the surveys on major overhauls as per No 2 sample 4 and No 89 survey (II) No 6

-- to the State Planning Commission 08 10 1984

32. Submission of forms 0723 for the preparation of investment projects above M5 million total value as per Planning Order Part L section 20 No 3
- from combines and economy managing organs
 to the central state organs or district councils 24 07 1984
- from central state organs and district councils for projects above M20 million total value and other selected investment projects to be included in the central planning of the preparation by the State Planning Commission
 to the State Planning Commission 08 08 1984
- Schedule of Accounting of Project Planning Services
33. Notification of project planning needs by the investment of customers or main and general contractors⁸
 --for all projects 17 07 1984
34. Delivery of project defined classification evidence for the central planning of the preparation of investment projects above M20 million total value and other selected investment projects as per Planning Order Part L section 20 No 5.11
 --from the planning facilities
 to the competent accounting organs 15 08 1984
 --from the accounting organs
 to the account confirming organs 07 09 1984
 --from the account confirming organs
 to the ministries 21 09 1984
 --from the ministries
 to the State Planning Commission 08 10 1984
35. Delivery of the account information
 --from the planning facilities
 to the competent accounting organs 31 07 1984

36. Delivery of the yield and the need satisfied thereby of planning services for measurement, control and regulation equipment, electronic plant, pipelines and insulations, construction
- from the accounting organs of the investing industries
to the accounting organs competent for these project planning services for inclusion in their planning balance 10 08 1984
37. Delivery of the account drafts
- from the accounting organs
to the account confirming organs 21 08 1984
38. Delivery of the project planning accounts
- from the account confirming organs
to the ministries 14 09 1984
- Schedule for the accounting of 1986 university and technical school graduates
39. Delivery of the precisely defined requirements by technical specialty on the basis of the account proposal reconciled with the central state organs
- from combines directly subordinated to ministries and economy managing organs
to the central state organs 09 07 1984
-- from the central state organs and district councils
to the Ministry for University and Technical School Affairs 16 07 1984
40. Delivery of the total balance of the allocation of 1986 university and technical school graduates
- from the Ministry for University and Technical School Affairs
to the State Planning Commission 28 09 1984
- Delivery of excerpts from the comprehensive plan drafts as per the instructions in the various sections of the Planning Order
41. -- from the central organs superordinated to facilities of the health and welfare system
to the Ministry for Health 24 09 1984

42. -- from central organs superordinated to universities and technical schools

to the Ministry for University and Technical School Affairs 26 09 1984

43. -- from central state organs with their own construction and planning capacities, plan information on the extent of their own construction output and production planning

to the Ministry for Construction

-- from central organs involved in domestic consumer goods trade the section on supply

to the Ministry for Trade and Supply

-- from central state organs, plan information about enterprise transport planning

to the Ministry for Transportation and the State Planning Commission

-- from central organs, the facilities of which are subordinated to the health and social system, the information on the development of basic assets and investments for medical facilities

to the Ministry for Health

-- from central state organs and district councils, plan information for children's and youth recreation

to the Office for Youth Affairs

-- from central state organs, the plan information on environmental control

to the Ministry for Environmental Control and Water Management

-- from central state organs, the indices of vocational training

to the State Secretariat for Vocational Training

02 10 984

44. -- from central state organs for locally managed technical schools

to the Ministry for University and Technical School Affairs and the State Planning Commission

28 09 1984

45. On the measures for replacing fuel oil, hard coal and coke as well as import energy sources and brown coal briquettes and on rational energy use (form 1919)
- from combines and facilities directly subordinated to ministries and from bezirk councils
 - to the competent ministry or central state organ and the center for rational energy use, Leipzig 17 07 1984
 - from the center for rational energy use, Leipzig
 - to the Ministry for Coal and Energy, the study group on rational energy use at the GDR Council of Ministers and the competent ministries, the survey for all sectors broken down by combines 09 08 1984
- Information about state plan targets
46. Delivery of information on selected state plan targets of enterprises and facilities (form 0500)
- from combines directly subordinated to the ministries
 - to the district councils 28 12 1984
 - and on selected state plan targets of enterprise parts
 - from the enterprises
 - to the kreis councils 10 01 1985
- Revision and improvement of the consumption and stock norms of the 1985 national economic plan and the planning of consumption and stock norms for 1986
47. Delivery of proposals regarding consumption norms including evidence of savings summarized by energy sources, raw and other materials and packaging
- from combines directly subordinated to the ministries, economy managing organs and district construction offices
 - to the superordinated ministries, the ministries confirming consumption norms and, regarding energy consumption norms, to the study group on rational energy use at the GDR Council of Ministers 28 02 1985
 - from the ministries
 - to the ministries confirming consumption norms the State Planning Commission, the ministries responsible for accounting and, regarding energy consumption norms, to the study group on rational energy use at the GDR Council of Ministers 12 03 1985

48. Delivery of proposals on stock norms, reconciled with the consumer sectors
- from the account assigned or accounting organs
to the ministries responsible for accounting 04 02 1985
- from the ministries responsible for accounting
to the ministries confirming the stock norms and the State Planning Commission 18 02 1985
49. Discussion of the proposals on consumption norms by the ministries confirming consumption norms, on energy consumption ministries by the study group on rational energy use at the GDR Council of Ministers, and on stock norms (excluding solid and liquid fuels) by the Ministry for Materials Management, on the stock norms for solid and liquid fuels by the Ministry for Coal and Energy or the Ministry for Chemical Industry as well as confirmation of
- stock norms 28 02 1985
- consumption norms 29 03 1985

Preparation of transportation norms

50. Delivery of the confirmed transportation norms for the preparation of the 1985 national economic plan
- from combines or economy managing organs
to the enterprises 25 05 1984
51. Submission of proposals for transportation norms for the preparation of the 1986 national economic plan
- from enterprises
to the combines or economy managing organs 29 03 1985

FOOTNOTES

1. To the GDR State Bank, the basic economic data (form 0500).
2. As per the survey on the submission of plan drafts separately delivered to the central state organs or district councils.
3. Including forms 2705 and 2706.
4. Including forms 2705 and 2706 to be precisely defined on the basis of central decisions.

5. The date for delivery by the ministry of the main indices of the output and efficiency development of the combines will be separately decided by the State Planning Commission.
6. For the selected headings as per attachment No 3 to the balance register, including breakdown by supply sectors.
7. As per the separate dates fixed by the State Planning Commission.
8. For construction at the competent balance assigned enterprise as per construction balance register of 21 May 1979 (Special Issue No 1013 of the GESETZBLATT).

11698
CSO: 2300/506

GERMAN DEMOCRATIC REPUBLIC

CASH PLANNING ORDER SUPPLEMENT ON ENERGY SOURCES

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 15, 21 May 84 pp 190-191

[Order No 4¹ on Cash Planning of 24 Apr 84, signed by W. Siegert, state secretary and first deputy minister, Ministry of Finance]

[Text] To complement the Order of 2 August 1979 on Cash Planning (GBI I No 11 p 123), the following is ordered to safeguard the compatibility of the material and financial planning of energy sources:

Article 1

To be inserted as a new Article 13:

"Article 13

(1) The general directors of state combines and the directors of enterprises directly subordinated to the central state organs must document the complete compatibility of the quarterly quotas for the energy sources electricity, natural gas (imported), city gas, motor fuel, diesel fuel and fuel oil with the energy costs listed in the cost plans (see attachment). This documentation must be submitted as attachment to the cash plan to the Ministry of Finance, the competent bank branch and, in duplicate, to the competent central organ so that one copy may be passed on to the State Planning Commission.

(2) State combines and enterprises of agriculture, forestry and the food industry, the domestic consumer goods trade, the construction industry, the transportation system and the local supply management subordinated to the district councils, deliver the documentation as attachment to the cash plan to the finance department at the district council, the competent bank branch and, in duplicate, to their technical organ at the district councils, so that one copy may be passed on to the State Planning Commission.

(3) The data as per Paragraphs 1 and 2 must be based on the quotas for energy sources and the energy costs planned for the quarter, which are included in the confirmed quarterly breakdown of state targets for costs per M100 goods production, delivered by the State Planning Commission to the ministries and other central state organs and to be broken down to the combines. Planned energy

1. Order No 3 of 14 April 1983 (GBI I No 11 p 123)

costs exceeding the quotas must be blocked by the general directors of the combines. In the case of subsequent changes in the quotas, payments must be made as per Paragraph 4 on the basis of the corrected quotas.

(4) The blocked costs must be paid to the central budget as 'profits not earned on own economic performances', under code 531 by the 18th calendar day of the month following the quarter."

Article 2

The former Article 13 of the Order of 2 August 1979 on Cash Planning will now be Article 14.

Article 3

This order takes effect on 1 June 1984. It is to be observed in the preparation of the cash plan for the third quarter 1984.

Attachment to the Preceding Order

Proof of the Compatibility of the Material and Financial Planning of Energy Sources for the.....quarter 19..

Registration Endorsement
Registered as quarterly
special report with registry
No 3700/2/015.

Combine

Central State Administration
for Statistics

- value data in thousand mark without decimals

Energy Sources	Unit of Quantity	Quota (Consumption)			Total of Costs in En- ter- prise Plans	Excess Costs Column 6 less Column 5
		Quantity	Value per Unit of Quan- tity	Total Value (Column 4 X Col- umn 3)		
1	2	3	4	5	6	7
Electric Energy (labor)	MWh					1
Electric Energy (output)	MW			-	-	-
Natural Gas (imports)	Mio m ³					1
City Gas	Mio m ³					1
Motor fuel	tons					1
Diesel fuel	tons					1
Heating Oil	tons					1
Total	-	-	-	-		2

1. Excess costs = cost blocking
2. Payment to the central budget as "Profits not earned on own economic performances"

11,698
CSO: 2300/506

KDT PRESIDENT CALLS FOR MORE WASTE-FREE TECHNOLOGIES

East Berlin NEUES DEUTSCHLAND in German 16-17 Jun 84 p 12

/Article by Dr M. Schubert, President, KDT: "Too Many Precious Materials Still Found on Dumps"/

/Text/ "Waste-free technology is the practical application of knowledge, methods and resources with which to ensure the most rational use of natural resources and energy as well as the protection of the environment within the framework of human needs." That is the challenge for new technologies as it was set forth in 1976 in the CEMA countries and in an environmental seminar of the Economic Commission for Europe ECE of the United Nations. The statement emphasizes the fact that, in most technologies still in use today, production as well as consumption wastes, contain great quantities of valuable raw materials which are lost to the national economy.

Multidisciplinary Concerns

With the increasing shortage and rising cost of raw materials and energy sources, as well as the essential higher standards for environmental protection, this aspect has managed to enter the social consciousness more clearly than ever. Furthermore, there is, along with dynamic growth of industrial production, declining consumption of both materials and energy in the national economy. This tendency must continue; for this reason, efforts to establish extensive, self-contained materials cycles in as many industrial sectors as possible ought to be fully promoted. In the final analysis, self-contained material cycles simply means using materials and energy resources so prudently in the various processing stages that they are completely used up and not transformed into useless trash. With the implementation of low-waste or waste-free processes, this can be done in an intelligent and foresighted way. It opens up a wide field for research in many scientific areas.

Given the present state of science and technology, the reuse of all existing byproducts, whether in the realm of production or consumption, is still more economically in many cases. For this reason, our current 5-year plan has the goal of sensibly reusing 29 to 30 million tons of byproducts as secondary raw materials by 1985. A number of good examples can already be given.

With new processes, textile wastes and used textiles, the quantities of which are increasing because of frequent style changes and the composition of which is changing, can now be reused to a greater extent than was traditionally the case. Most of these wastes are processed to make fleece and felt materials such as (Maliwatt, Malivlies, Texotherm, Runotex) and others.

Progress has also been made in the utilization of thermoplastic wastes in the synthetic fiber industry to produce various new materials, one of which is the sealing cord known by the brand name Kemafil.

Examples of Real Possibilities

Another illustration of the diverse possible applications of waste products in the production sector is metallurgic slag. It is usable within the iron and steel industry itself, also in road construction, civil engineering, hydraulic engineering, railway construction, in the cement industry and in the production of mineral wool and as a filler and sand blasting material in construction.

Another great scientific and technical challenge is the use of the 17 million tons of ash accumulated annually by power stations. Scientists and engineers of the ORGREB Institute for Power Stations in Vetschau are constantly working on increasing the use of this ash as an additive in the production of concrete and on developing other products based on it.

Use in Energy Production is Conceivable

Along with the use of wastes as material resources, their use as a source of energy offers a possible alternative. It does have the disadvantage, however, that the waste products are permanently disposed of. According to research, the byproducts of the chemical industry have an average calorific value equivalent to that of brown coal briquettes, some 21,000 kilojoules per kg. A number of scientists are therefore working on the possibilities of exploiting such waste products. In this connection, tests have been carried out in the Lutzkendorf waste incineration plant which showed favorable economic results. For the first time, a process has been developed in the GDR for burning used tires without polluting the environment. Moreover, it is economically superior to pyrolysis, the technical process of decomposition under the influence of high temperatures, which has been used.

The VEB Agrochemical Combine has developed two processes which produce few waste materials while improving carbide production and lowering the fluorine content of gases given off during production of phosphate fertilizers. These processes have attracted international attention. They have been publicized in a compendium of low-waste/waste-free technologies published by the UN Economic Commission for Europe. This is a collection of reports of successfully implemented low-waste processes which, in comparison with traditional technologies, produce fewer wastes, consume less material and energy, and reduce environmental pollution. In the GDR, the Central Clearinghouse for Low-waste Technology of the Center for Environmental Control in Wittemberg publishes abridged versions of articles from the compendium and sends out complete documentation upon request.

Additionally, experts from the GDR expect to gain international recognition with a handbook published under their auspices by a study group of the ECE. It includes categories for evaluation of technologies. Economic, ecological and social as well as technological influences and effects of each new process are included in the categories. Thus a very reliable preliminary decision can be made in the selection of technologies.

Teamwork Helpful Here Too

The development of low-waste technologies necessitates interdisciplinary cooperation. Through the cooperation of educational and research institutions, of industry and the Ministry for Environmental Protection and Water Management, and also in the activities of the KDT and other societal organizations, further progress can certainly be made in this area.

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HUNGARY

NEW FORMS OF INDUSTRIAL ORGANIZATION DETAILED

Budapest FIGYELO in Hungarian 31 May, 7 Jun 84

[Article by Istvan Csillag et al*: "Reform of Enterprise Organization and Management"]

[31 May 84 p 3]

[Text] Part I. Risks and Prospects

In recent months, the members of the task force on perfecting the system of macroeconomic management presented their ideas in various forms and before different forums. An important milestone of the changes and reform was the standpoint that the MSZMP Central Committee adopted at its April session, outlining the directions in which to proceed. The work, however, did not end here: the specific methods of the changes are now being formulated. We believe that before the professional public it is possible to develop solutions that will suit, or at least be acceptable to, the economic subjects and wide strata of the population. For this reason we are publishing our ideas as one of the feasible proposals.

Comprehensive Modification

According to the Central Committee's standpoint, which was adopted on the basis of an extensive analysis of practice, the economic mechanism must be modified comprehensively, i.e., modification must not be limited to only some of the elements of management. The natural vehicles of these elements are the organizations of a market economy. Consequently, solution of the question of enterprise organization is a prerequisite for, and a key element of, modernizing the system of macroeconomic management. Namely this provides the basis of the institutional guarantees that make the survival of the reform process likely.

The objective in transforming the organizational system is to make the economic units independent subjects in a regulated market that is extensive in its scope and depth, and thereby to improve the incentives and entrepreneurial skills of the managers and workers. This change is also a prerequisite for improving the feasibility of continuous economic planning, and for strengthening the ability of government control to influence the market.

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To this end it is essential to change within the competitive sphere the mode of exercising the state's rights as the owner of assets, and to separate unambiguously and institutionally the sphere of macroeconomic management from the sphere of economic activity. In "routine matters," the direct dependence of the enterprises in the competitive sphere from the state administrative organs must cease. In other words, external organs--state and party supervision--must not take over such entrepreneurial decisions from the economic units. These changes do not affect the social nature of ownership. To the contrary, they could mean a higher level of socialization, if the right of disposal is exercised--in a manner specified by statute--by the collective of the enterprise or by the representatives whom the collective elects pursuant to statutory regulations.

Competition is the natural medium of the independent market organizations. For this medium to unfold, enterprise forms corresponding to the differentiated conditions of economic activity must be established; unwarranted, artificial monopolies must be abolished; and the number of economic organizations--competitors--must be increased by an order of magnitude.

The individual types of enterprises must be of equal rank; in other words, among the possible solutions there is no "principal form" that would give the enterprises concerned preferential treatment or other opportunities that circumvent competition in the marketplace. In this way the artificial distinctions between the state sector, cooperatives and small businesses could be reduced and eventually abolished.

Organizational Mobility

Whether to found an enterprise is an entrepreneurial decision. Enterprises will be formed in the future mostly as subsidiaries and associations, on the initiative of the economic organizations and banks. (We will disregard small businesses for the time being.) The present "founding" role of the public administration organs will wane because in the future it will not be possible to found an enterprise through the reorganization of existing enterprises. In this way it will be possible to assert the principle that the founder of an enterprise must be able to obtain the resources necessary for this purpose (enterprise development fund, or allocation of capital by the state). State organs will continue to direct public utilities, the enterprises that perform the state's infrastructural tasks, but this sphere would be separate from the enterprises that potentially could belong to the competitive sphere. From the preceding it follows that we do not regard as founding the present state enterprises' reclassification into the new forms that we envisage; that is merely the initial operation in modernizing macroeconomic management.

Delegation of the owner's right of disposal to the enterprise level could provide the basis for the economic organizations' independent development, enabling them to find and perfect the organizational forms best suited for functioning in the marketplace. This would make organizational interventions by the public administration organs exceptional; essentially such interventions would serve to prevent the emergence of monopoly situations, and to enforce legality.

A new mechanism for the liquidation of enterprises must be developed as well. It also follows from independence that the entrepreneurial collectives, the enterprise organs, may adopt decisions regarding the expediency of liquidating the enterprise, subject to approval by the public administration organs. It might be expedient to liquidate an enterprise mostly when the enterprise persistently shows a loss or when it becomes insolvent. In the latter case, also the enterprise's creditors may petition its liquidation, in the bankruptcy proceedings. This option can be the basis of ensuring that uneconomical organizations will not be able to sponge on society. In this way it will also be possible to frankly disclose and solve, rather than conceal, the problems of such enterprises.

When an enterprise operates consistently in violation of the statutory regulations, the agency entrusted with overseeing legality orders the enterprise's liquidation. This is the only case when a state organ may not order the liquidation--for example, the organization--of the enterprise. In other cases of liquidation, state organs may exercise oversight to safeguard society's property.

After the claims of the creditors have been met, the assets of the liquidated enterprise reverts to the state's capital fund, thereby providing a possibility to found a new enterprise. From all this it also follows that special treatment of so-called ailing industries--under which the industry's supervising organs determines what methods may be employed--cannot become confused with the questions of founding and reorganizing enterprises.

Selection of Chief Executives

The selection of chief executives is another important area of exercising the owner's rights. The essence of the change is that the directors of the economic units are not appointed by an administrative organ, but are elected by the enterprise collective (at enterprises of another type, by the workers, in agreement with middle management). The broadening of enterprise independence, including the new system of selecting chief executives, increases the role of the enterprise's political and voluntary organizations. Policy guidance by the party and its leading role are reinforced if at every enterprise within the competitive sphere the enterprise's party organization or its members assert and implement the higher-level party resolutions in personnel policy as well, for they are able to directly perceive and influence the process of deciding enterprise policy.

An end of personal subordination to public administration means that the chief executive is able to concentrate his attention on the market and on how the enterprise's profit is developing, and he does not come into conflict with the

expectations set in his economic incentive. Which of course requires also that the chief executive's economic incentive be linked to his retaining his job with its higher base salary, and thus his economic incentive linked to annual profit is replaced by his economic incentive linked to long-term profit and the growth of the enterprise's assets.

In conflicts of interest, enterprise chief executives must assert their independent interests as well. With the necessary internal organization, authority and rights, the Hungarian Chamber of Commerce could become the organization for institutionally asserting the interests of enterprise chief executives.

Internal Mechanism

A large proportion of the enterprises at present are administrative collectives consisting of several units, each with its own specific interests and separate also territorially. The enterprise's present internal mechanism, which provides room for the assertion of these interests, mostly screens them, instead of providing direction for the efforts of the enterprise as a whole, on the basis of the mentioned interests. Therefore it seems expedient to develop internal forms of enterprise organization that enable the operating subdivisions to measure in the marketplace the effectiveness of their operations.

Relatively independent subdivisions of an enterprise could be formed with the approval of the enterprise's management, on the initiative of the subdivision concerned. The subdivisions could cease, be transformed, and their limits could be redefined in the course of their internal cooperation. For example, an ad hoc subdivision formed to handle a specific order might cease, or it might be reestablished in a different composition, for a new task. The subdivisions would operate on the basis of internal profit-and-loss accounting, and thus the enterprise's management would be able to plan the subdivisions' operations and evaluate their results. With the conversion of the subdivision into a business, also its interest relations could develop, which would contribute toward the subdivision's holding back its performance.

It will be expedient to lay down in the enterprise's rules of organization and operation the limits and conditions for the operation of the subdivisions with internal profit-and-loss accounting. A solution can be imagined under which contracts regulate the rights and obligations of a subdivision with internal profit-and-loss accounting in relation to the enterprise's management and the other subdivisions. In this case the contracts could include, for example, the following: the definition of the activity of the subdivision with internal profit-and-loss accounting; the subdivision's capacity utilization and the extent of its use for outside work; the system of applicable prices; the subdivision's costing obligations; the mode of participation in the distribution of the enterprise's profit and its use; or the rules of forming personal incomes.

Whether a subdivision with internal profit-and-loss accounting should have the right to split off from the enterprise is a controversial issue. According to one standpoint, this would create intolerable uncertainty for the enterprise's management. But another view expects this right to have favorable effects because it would direct into a controllable and predictable channel the present spontaneous actions such as group resignations, for example. Strict conditions

would have to be set for the split-off: notice of intention at a specified time in advance, and compensation for a substantial proportion of the assets that the subdivision takes with it. Aside from this, the subdivisions' initiative to develop the legal framework of their independent operation would have to be guaranteed institutionally.

Supervision of State Enterprises

The essence of the proposed change in the relationship between the macroeconomic managing organs and the enterprises under the new form of enterprise management is that henceforth the public administration organs would not have authority to determine the enterprises' organization and to appoint their chief executives. Thereby enterprise supervision in its present sense would cease over enterprises in the competitive sphere. This activity, which provides room also for tutelage and control by command, would be replaced by supervision of legality, under which an authorized public administration organ oversees that the various economic organizations operate in accordance with the statutory regulations and their charters. Thus supervision of legality will not be able to question the expediency of the decisions of an enterprise that meets its responsibility for supply and its export commitments, and also observes the statutory regulations.

The supervision of legality at state enterprises will be a new task for public administration. Since the founding organs exercise this supervision, it will be necessary to avoid the merging of the interventions under the state's right as owner--for example, agreement with the selection of the chief executive--with the supervision of legality or the influencing of the industry's economic policy, activities that the state performs by virtue of its executive power. To merge them would merely mean the continuation, under a new name, of the present dependence that is already confusing. Special organizational solutions will have to be employed to avoid this. For example, separate small staffs could be formed at the founding ministries, or the administrative and legal departments could be entrusted with the supervision of legality. In addition, the enterprises must be given an opportunity to appeal to the courts from the decisions of the public administration organ that exercises supervision of legality.

Besides the supervision of legality, of course, there will remain financial control and specialized branch supervision, basically by the same organizations that are exercising them at present.

It will be expedient to promulgate at the same time, but to implement gradually according to a fixed schedule, all the modifications of the statutory regulations that the organizational system's reform requires. However, the overall period of implementation should not be too long because this would unnecessarily cause uncertainty.

It will be expedient to combine the introduction of the new organizational forms with the loosening of monopoly situations in the market's organization. To enhance the development of real competition in the entire area that could eventually belong to the competitive sector, it would be warranted to ensure a good "starting position" also organizationally. A number of regulator elements

directly presuppose this. For example: that bargaining in the marketplace replace central costing regulations; that competition control the process of enterprise earnings; and that the rise of earnings be curbed not by the regulation of the average wage level, but by competition that sets rigid barriers for price increases and the unwarranted outflow of purchasing power, and by the enterprise's ability to assume financial burdens. When the enterprises are reclassified into the new organizational forms, decisions could be made also regarding the need for decentralization.

[7 Jun 84 p 3]

[Text] Part II. New Enterprise Forms

In the first part of our article we investigated the reform of society-owned economic organizations and formulated principles applicable to every subject of the desirable enterprise structure. Now we will discuss the differences within the common features, the characteristics of the enterprise forms. However, we will not dwell on the problems of the so-called public utility enterprises because we believe it is warranted to continue their direct state ownership under public administration.

Elected Management

Under the enterprise form of elected management, the state delegates to the enterprise collective the right to dispose of public property. This enterprise form is based on the workers' direct and active participation in management, the prospects of which are better at smaller enterprises, and therefore it can come into consideration basically at enterprises employing fewer than 500 persons. The size limit could vary in accordance with the type of economic activity. Thus in the branches where cooperatives play a decisive role--in agriculture or the contracting construction industry, for example--it would not make sense to operate under a different enterprise form the state enterprises with more than 500 employees.

Under elected management, an enterprise is managed by its own managing organs: the meeting of workers, the elected director, his deputies, and the board of directors. The enterprise can have also a workers' board of supervision to supervise the enterprise's director and its board of directors.

As the enterprise's highest organ that exercises the owner's rights, the meeting of workers would consist of all workers at the enterprise. Every worker with a specified minimum length of service with the enterprise would have a vote. Several different views have been advanced regarding the required minimum length of service. Some would tie the vote to a minimum of one year of employment with the enterprise. Others, to protect and recognize the core personnel, would consider a longer "period of membership" warranted. Perhaps it would be best to leave the formulation of this condition to the workers when they adopt the enterprise's by-laws.

In our opinion, 300 employees would be a perceptible size limit from the viewpoint of forming the enterprise's internal organization. For above this size limit it is more difficult to ensure the assertion of direct influence. It

seems expedient to organize a meeting of delegates at enterprises with more than 300 employees. When there are fewer than 300 employees, the meeting of workers decides whether to elect a board of directors and a board of supervision, or to let the meeting of workers itself perform these functions.

The director elected by the meeting of workers heads the enterprise. It will be expedient to lay down in the by-laws the conditions of the director's employment, and perhaps to specify that a vacancy for the post of director must be filled on the basis of inviting applications. The meeting of workers exercises the employer's rights regarding the director. Exceptionally, in the case of a crime, also the organ that exercises supervision of legality may initiate the director's recall.

The enterprise determines independently the scope of its activity and manages its own assets. A state organ may not deprive an enterprise of its assets. The enterprise's assets may be reallocated by a decision independently of the enterprise only in bankruptcy proceedings. To strengthen the workers' direct incentive it can be recommended that the enterprise issue shares for its workers; purchase of the shares would be voluntary.

At an enterprise under elected management, closer supervision of management can be expected through the direct material incentive, and the workers' participation in management could become the basis of stronger loyalty to the enterprise. Opinions differ on whether there will be capital investment under this enterprise form. In the long run we will probably have to strive for the worker collective's financial interest in the enterprise.

Enterprise Council

Besides the workers' short-term profit incentive, also the growth-orientation stemming from the director's incentive to keep his job could assert itself in the strategic decisions of an enterprise supervised by an enterprise council. On the basis of mutual control and persuasion, the open assertion of conflicting considerations offers good prospects for the adoption of optimal decisions. However, the adoption of day-to-day operational decisions would remain the task of the enterprise's management, as before.

The enterprise council would consist of representatives of the enterprise's management, and of the workers' representatives elected by plants, shops and factory units. A possible solution is that initially the founding organ would determine the organizational subdivisions whose chiefs at any given time have a seat on the enterprise council; later the composition of the management's representation could change either by rotation, or on the basis of a decision by the enterprise's director or the enterprise council. Exercising his right of appointment, the director would appoint the managers to the enterprise council. With the assistance of the trade union, the workers themselves would decide the size and composition of their representation on the enterprise council.

On the enterprise council, the management's representation and the workers' representation would have equal votes, regardless of the number of representatives. Such question as the plan, marketing strategy, profit allocation, and the development of internal organization could be decided by a simple majority.

But a qualified majority would be required to decide questions affecting the enterprise's future, such as reorganization or the election of the enterprise's director.

The ideas considered earlier included one that called for a three-tier enterprise council; in other words, delegates of the state organs also would have participated in the adoption of decisions. The advantage of such a solution could have been that it might have overcome the enterprise's "intensity" and technical approach. But its drawback would have been that the persons representing the partial interests of the state organs could have exerted pressure on the enterprise; or conversely, the "mechanism of bargaining" that we want to do away with might be reinforced further through the delegates whom the state organs send to the enterprise council. We rejected this idea because the objective is to separate the sphere of public administration from the economic sphere. But once financial interest in the enterprise becomes strong, the enterprise council might want to have among its members also specialists who know how to get the highest return on investment.

Within the limits of the enterprise council's strategic decisions, the director manages an enterprise supervised by an enterprise council. Here again, no public administration organ exercises supervision over such an enterprise, with the exception of the supervision of legality. On certain questions, however, such as the election of the enterprise's director, the enterprise council must obtain the concurrence of the founding organ.

Limited Trust

Parallel with the retention of the traditional trust organizations, it might be expedient to develop the limited trust as a new form. According to our proposal, this could be done by reorganizing the present large enterprises as trusts, giving their subdivisions the status of trust enterprises. And the founding ministry would delegate some of its rights--for example, the right to liquidate an enterprise--to the headquarters of the trust, specifying the framework of its activity and its authority.

The trust would not be able to interfere operationally in the activities of its member enterprises. It could centralize and use for development a share--specified in the founding decision--of the enterprises' profits after taxes. To the extent of the centralized share of the profits after taxes, the trust would have to act as guarantor of the member enterprises' obligations. If a member enterprise of the trust operates at a loss and it appears that the losses will continue, the trust may even liquidate the enterprise, with the founding organ's approval. A management committee would manage the trust; it would consist of the member enterprises' directors. The founding organ, or possibly the Council of Ministers, would appoint the trust's director general, after consulting the management committee.

Organizational Diversity

The solutions ripe for practical implementation are the fruits of many different debated ideas and experiments. Behind the relatively complete proposals there are the many less ripe ones, with merely a conceptual framework in most cases.

Due to the absence of the flow of capital between enterprises--because financial interest and the valuation of assets have not been developed--many economists have come to the conclusion that the solution could be the establishment of asset-managing organizations whose sole function would be to promote the growth of the assets of the enterprises they control. Up to now the view has been gaining favor that the asset centers should exercise the rights of the employer and the right to reallocate capital, and all other economic rights should be delegated to the enterprise (subsidiary) level. This could ensure that the asset center functions as a truly new type of market-oriented economic organization, and not an administrative organization similar to trusts and industrial centers of the old type.

The asset center would be under a sole manager who would be assisted by a staff of experts. A body established by the National Assembly, or perhaps the Presidential Council or the Council of Ministers could appoint the asset center's manager. The asset center's successful operation would be enhanced if in its work it could rely on the capital market--stock and bond market--and could thus express and market in shares its own value and the value of its subsidiaries.

Enterprises subsidized on the basis of a contract would not constitute a separate type of organization, rather they would differ from the preceding forms in the special conditions of their operation. These would be enterprises providing cultural, social and perhaps infrastructural services for the population; due to the nature of these services and to the limited demand for them, a budgetary subsidy would offset the difference between their costs and revenues. Perhaps also other organizations--the population or the bank, for example--could be additional sources of financing. Such enterprises already exist, in the areas of culture and research, for example. The only departure from the situation at present would be that such enterprises could function under any new organizational form. Naturally, some of the forms--for example, organizations supervised by an enterprise council--appear more suitable than the others. Certain organs of state power and special-interest organs would have more say than at present in awarding subsidies and supervising their use.

The transaction of foreign trade with the CEMA countries could be entrusted to so-called provenance and destination centers, special enterprises under the control of public administration. On the basis of intergovernmental agreements, they would transact trade between the domestic enterprises and the CEMA partners. In relation to the partner countries, these organizations would have the status of representatives (for example, the director general would simultaneously be a deputy minister). But domestically they would act as partners in the marketplace, as suppliers or customers. This organizational solution would enable the production enterprises to maintain market relations also in their trade with the CEMA countries.

Within each of the briefly described new organizational forms it will be warranted to develop intrapreneurial businesses, strengthening also from within the flexible adaptability of these organizations to the market.

When reclassifying the enterprises into the new organizational forms, it will be necessary to analyze the market position of a given enterprise. If the

analysis shows that the enterprise is a monopoly, then either the new, flexible elements of economic regulation cannot be granted it, or the enterprise can be "salvaged" for the medium of competition by abolishing the monopoly situation, through organizational decentralization, for example.

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EXPERIMENTAL INCOME REGULATION RESULTS DISCUSSED

Budapest FIGYELO in Hungarian No 24, 14 Jun 84 pp 1,4

[Article by Rudolf Borloj: "Experimental Income Regulation: the First Test Year"]

[Text] The economic results have become well known of achievements by enterprises and cooperatives using the two new, flexible income regulations that were introduced last year.

Even at first glance it is evident that the experimental regulation led to different attitudinal forms or results among the economic organizations. This is true whether we examine the development of the various achievement indexes, the wage and earnings increases which have been realized, or the relationships of the factors. For example, the same "B" regulation model by which one industrial enterprise increased its achievement indexes by 6 to 8 percent led in the case of another industrial enterprise to a large loss, an almost 20 percent decline in added value. (It is also very revealing that wage costs according to the balance increased essentially at the same rate in the case of both enterprises).

The gross production value indexes of the enterprises participating in the experiment at industry ranged between 99 and 113, with a wider variation in the case of added value from 81 to 119; the results which served as the basis of the calculation (incentive) changed to a particularly different degree: in addition to the above-mentioned enterprise suffered a loss, we can see declines of 30 percent as well as increases of over 40 percent. All in all, this significant spread undoubtedly resulted in faster achievement improvement than was realized in industrial areas operating under general regulation. We may add that in general the producer price level at the enterprises that were studied grew moderately, and therefore the unchanged price production indexes also developed favorably.

Good and Weak Experiences

There are also definitely large exporters among the industrial enterprises making use of the experimental income regulation. After the first year we are happy to state that the possibility for freer management, including, above all, an easing of strict income increase limits had a favorable effect on the export activity of the enterprises. In this sphere, export receipts

grew by 27.5 percent, including about a 25 percent increase in ruble exports and almost 30 percent in convertible exports.

The data of the first year render account of good and weak experiences regarding the growth of personal incomes. If we approved as a ratio criterion (not excessively strict) that there should be harmony between the increase in added value and wage cost, then the unified data are favorable: the increase in value added in industry and the construction industry exceeded the rate of growth for wage cost. But we must be less satisfied when we also learn that the spread in the growth of fulfillment indexes among enterprises, or the rise in wage costs, were not at all in harmony with each other: to put it plainly, a number of economic organizations in the lower half of the achievement list placed first in wage and earnings increases. (It follows logically from this, however, that there were also quite a few organizations which rapidly improved their achievement with a moderate income increase). For example, there were enterprises where the added value remained essentially the same, whereas the wage cost increased by 18 percent; but there were also enterprises where the wage-cost increases scarcely exceeded 4 percent although added value increased by 15 percent. Similar asymmetries, although not of the same extent, were also evident at other enterprises, and this judgment is very noteworthy from the viewpoint of the experimental regulation. It is an indisputable attribute of the experimental income regulation forms that by eliminating limits that frequently restrain incentive and rational management, a possibility is given to incentives and to rewarding surplus achievement appropriately. It also cannot be disputed that they put uniformly effective achievement requirements on the use of live labor, that is, on every forint of average earning. Still the fact is that the experimental regulation did not exclude a more rapid personal income growth than the improvement rate of the achievements. How was this possible?

Reorganization

Because the logic of experimental regulation is entirely different from that of traditional regulation. While traditional income and earnings regulation systems basically influence the kind of relation there should be between the increase in achievements and the increase in wages and earnings, the experimental method--by means of the tax burden--regulates convincingly the level of achievements and the level of personal incomes. This has brought about a fundamental reorganization in the enterprises, and has made possible a rapid (more rapid than the improvement in achievements) earnings increase where in the former increment regulation, the relationship of the achievements and the earnings--to the benefit of the achievements--was more than what the experimental regulation demands. It is another matter that the extent of the tax schedules linked to the new income regulation forms must be judged as excessively light. (This is an accepted point of view, and in 1984 the extent of tax regulation was tightened).

Another source of earnings increase at a higher rate than the increase in achievements is the discovery and use of enterprise reserves. As we know, there are ample reserves and for the use of these reserves the experimental

wage regulation creates much greater incentive than before since the conversion of cost savings by wages can be carried out at favorable ratios. Therefore, if an enterprise achieves cost savings and devotes a part of these savings to wages, it can increase personal incomes even at unchanged gross production value or at added value and profit increasing more slowly. The importance of personal income increases from the discovery of reserves declines in proportion to the decline in reserves.

In accordance with expectations, the 30 economic organizations using experimental wage regulation achieved high wage increases, amounting to about twice that of the average in the economy. Wage costs according to the balance increased in the industry by 7.8 percent, and the average of full-time workers by 10.4 percent. In the construction industry, the comparative figures are 7.2 and 10.4 percent. The significant spread evident in the growth rate of wages and earnings is not related to the size of the economic organizations, according to the studies.

Fifty Fillers Per Forint

At almost every enterprise the growth rate in earnings came close to the wage development index, and therefore we cannot deduce from this a special wage or share-centered income policy. But if we examine the size of the net share formed from profits in 1983, we arrive at another conclusion. In the construction industry, for example, the wage-ratio share as compared to 1982 increased by almost 5 percent, and the extent of the formation was rather widely spread among the enterprises. But this does not show up in last year's earnings increase, and therefore it is logical to deduce that some of the enterprises have important share reserves. It was characteristic in a number of places that the enterprises strove chiefly to reduce prime costs and eliminate waste; in some places it became a slogan: "Fifty fillers are yours from every forint you save!"

So much regarding last year's experiences. And the future? In 1984 a total of 54 economic organizations were using the "A" or "B" type, experimental system, and the so-called "new-type" earnings regulation is also operative. Last year's experiences verify it is worthwhile to continue with the experiments because through these the road leads to the development of modernized enterprise income constructs or to earnings regulation constructs. But the experiences we have gained thus far also warn us that these experimental system are not "panaceas" and are not devoid of a certain risk. Therefore caution is justified in extending these methods, and even more important is the professionally trained enterprise management cooperation which understands the goals and intentions of experimental regulation and does not use them wrong.

The "A" and "B" Method

Last year on 1 January two income regulation models entirely different from general regulation set forth the terms of the experimental test.

The essence of the labor and income taxation system (or the "A" type) is that in withholdings from profit it will effect considerable wage-ratio charges with the introduction by the employer, while it will ease profit-ratio taxation to a great extent through the use of the low linear profit tax schedule. (It is in this way that the method seeks to increase the intensity of the profit incentive, and at the same time it raises uniformly effective conversion requirements on the use of live labor.)

The so-called resource and income tax system ("B" type) projects an income tax using a unified tax schedule on amortization, live labor costs and profits. The taxation is, in principle, at the cost of profits, but--because of its adjustment to the general income regulation system--the enterprise may charge to costs that portion identical with the amortization centralization and the wage contribution of the tax.

In the above, the essence of the two models is put in expert language, and now let us put it in a way that may be easier to understand:

Enterprises using the "A" model pay a so-called employers' tax on their employees, a progressive earnings tax on the average earnings of the workers, an urban or community contribution and linear profit tax on profits. These taxes are charged to the enterprise profits, and the profit ratio that is left after the payment may be freely used for the formation of development, sharing, welfare, housing construction and reserve funds. The formation of a reserve fund is not otherwise mandatory, and a tax need not be paid separately on the formation of the individual funds.

The "B" model is different from the labor and income taxation system in that in this case the enterprises pay a linear tax in one entry on their employees, their fixed assets and profits. A part of this must be charged to costs and the rest comes from profits.

A common characteristic of the two models is that the personal income regulation is essentially more flexible than the general: a separate tax is not charged to the enterprise average earnings increment, and the progressive withholding depends on the size of the average earnings.

Last year a total of 30 industrial and construction industry enterprises and cooperatives used these two types of income regulation models.

6691
CSO: 2500/405

HUNGARY

CSEPEL TO MAKE POWER STEERING UNITS ON SPANISH BENDIX LICENSE

Budapest NEPSZABADSAG in Hungarian 19 Jun 84 p 5

[Article by Katalin Bossanyi: "Record Investment in the Csepel Automotive Factory"]

[Text] On 1 July the Csepel Automotive Factory will begin mass production of new power steering units--based upon a Spanish license. The major enterprise implemented the half billion [forint] investment in record time, in less than 28 months.

So much for the news. This is how Tibor Varnai, deputy general manager for technology talks about the things that preceded it:

Family Advantages

"The power steering we are now producing was our own development, but by now time has passed it by from the technological viewpoint. Even though my coworkers tried to modernize it, we were dissatisfied with the rate and with the characteristics which could be achieved, therefore we decided in favor of purchasing a license. The Serie Renault firm of France brought us together with Spain's Bendiberica; this is a subsidiary of the U.S. Bendix which has specialized mainly in subcomponent units for commercial vehicles, primarily brakes and steering development. With our license we have obtained a technology used and recognized all over the world, but the selection was motivated also by the fact that our partner will each year also buy back from us a significant number of complete steering units and steering columns. And this--beyond the technological agreement--was an important viewpoint for us because we could only get a loan from the Hungarian National Bank for the new power steering plant's investment if we pledge to repay within a short time in hard currency, the capitalist currency required for the development."

[Question] What can the new power steering unit do?

[Answer] This power steering unit is part of a larger product family: the Japanese have also purchased its smallest category, the medium one is produced by the licensor, and we will build the structures with 300 and 500 volts of

transfer power. Bendiberica developed these further for our requirements. It has a universal coupling systems, so it is much safer than the previous model with rigid columns. In collisions it is much less dangerous for the driver. It weighs more than 7 kilograms less than our design; it is made of fewer parts and therefore it can be produced more simply and more economically. Its advantage is that it can be put into buses, trucks, as well as tractors [which pull semitrailers].

[Question] How well did the domestication succeed?

[Answer] According to the tests it went well. The French firm also cooperated in the technological adaptation process. Choosing the domestic materials caused the biggest headache in the product's transplantation. Finally we succeeded in arriving at an agreement with the LKM [Lenin Metallurgical Works], and we are now taking competitive bids from the Csepel iron foundry and the Soroksar foundry for supplying us with the nodular graphite castings. What we are unable to substitute with Hungarian materials--the gaskets and bearings--do not even amount to 5 percent of the product's value. It compliments the work of our designers that they rapidly and with excellent quality prepared the entire inventory of necessary tools and quite a few specialized machines needed to complement the technology. Among other things this is how we were able to "fit into" our original investment budget, for example, in spite of price increases in the meantime.

There are strikingly many machines in the roomy, bright building converted from a one-time motor production facility, but one can hardly find any people.

"Because in the main plant there are fewer and fewer tradesmen with well rounded training"--says machine set-up man Sandor Vigh.--"There are a hundred new jobs here but so far only 11 of us transferred here from the old power steering plant so that still during the construction we could learn together with the engineers and technicians how to operate the new machines. I, this spring, for example, have already completed the programming course necessary for the NC-CNC machines, and now I have also signed up for another one. I can now operate eight kinds of new machines--including a very interesting finishing machine which has roller bearings--and I am gradually training my fellow workers."

[Question] Was the change worth the effort?

[Answer] My hourly wage was 28.50 in the old plant, and here I get 42 forints. I go out to the Danube before sunrise to do a little fishing, come to work here at 5 am, complete my shift, then go back to my old job and work 2 or 3 hours there also because we must also help out with the old power steering production. This way I make 10,000 or 12,000 forints a month. And in addition I like what I am doing....

Very Capable Technology

Chief plant engineer Tamas Vicko also fills several roles as one person. Being a development engineer, he took on the full organization and implementation of this investment. This is because in his opinion, a development

engineer's thinking is primarily needed for the adaptation of such a new technology and to introduce production. Turning over the job to production managers is justified only after mass production has begun. This is one of the reasons why his assignment runs until the end of the year, until the plant begins partial production. In the same person he is also the joint representative of that complex's enterprise economic work association [vgmk]. Composed of engineers, technicians and workers the main task of the association is to transplant the production of as many of the old power steering components onto the new technical foundation as possible.

"Technically this plant can already do a lot more today than what its nominal parameters qualify it for"--the chief engineer explains. "One interesting feature is that--while we suffered a tremendous amount of anxiety because of the delays in obtaining the import permits--because of the general recession we were able to buy relatively inexpensively also some machines which we could not even have considered in better times. By the way, I believe that it is easy to make an investment cost a lot of money. Where thinking is really needed is when one wants to negotiate good marriages between various levels of technologies. Look at this angled recess grinder: it is my favorite. It is made in Czechoslovakia, and it is a clever and inexpensive piece of equipment. Coupled with Italian sensing equipment it is practically capable of miracles. But I can also show you other examples, even some of our home-built special machines, or this super grinder which replaces several milling machines. Of course the grinder disc is very expensive but it lasts much longer than the milling tool which needs to be replaced often. Even the French organizers said it: the extra profit which cannot be inserted into a new technology for the outside, can come from such small ideas."

A separate warehouse is being set up in the rear of the main hall, and this is where final assembly and checking take place. They bought special assembly lines for this, designed and built by Bendiberica. Automotive engineer Mihaly Fekete was still working on installing these when we were there.

"Separate instruments check every assembly phase and the final checking is done by computer. At the same time the computer also immediately prints a bilingual guarantee attesting to the characteristics of the finished steering unit. By the way, we are guaranteeing these power steering units for 300,000 kilometers."

The new Csepel Auto Plant is capable of producing 37,000 power steering units a year. But the opinions differ even within the factory today about, for example, how many they will produce here next year. Not that the people in Csepel made this development investment without due market research, just to satisfy their technological pipe dreams. Quite to the contrary: the largest potential user, Ikarus [bus factory in Hungary] thinks highly of the new power steering units. Yugoslavian and Finnish companies have also inquired about imports and tests in the socialist countries have also produced favorable results. Among the CEMA countries only Hungary is engaged at the present time in producing such modern power steering units. Thus theoretically their sales opportunities are limitless. But in practice the price may raise obstacles to rapid sales expansion on the definitive socialist markets. This is why business manager Marton Geiger put it that way, that even though the new product can be produced outstandingly economically, he cannot say today yet how much profit it will bring in.

Question of Price

What are we really talking about? A modern capacity is available whereby power steering units can be produced by investing less time, material and manpower than before. So raising the price because of the development is not justified. However, everything also has a price: Csepel Auto took out a loan for the investment, and did so at interest rates which have in the meanwhile increased rapidly. It can pay back the loan only if the development pays for itself in the prices--and does so in a manner proportional to time.

But economically it is more justified to start out from the position that this power steering unit can do more than the old one, it increases the usefulness and durability of the Ikarus buses, and thus also their competitiveness. It is therefore completely logical that the people in Csepel would like to see in the increased sales revenue, the value of the technological advantages incorporated in the development. This is also in the interest of Ikarus, influencing its market development efforts. It was no accident that among other things they have also made an agreement with Csepel Auto to rebate a portion of their export income to their large domestic supplier and partner. Thus the debate is not between the two Hungarian enterprises. The problem is caused by the fact that the "price considerations" of the socialist countries which represent the largest market for Ikarus buses differs from this--for control and regulatory reasons. Among other things this is also the reason that according to the experience of recent years the Hungarian bus factory has been renewing its product structure more slowly technologically than is justified on the socialist market.

All of this shows it well that: a much more comprehensive problem is involved here than the case of the power steering unit. It will influence the cooperation of the CEMA countries also over the longer range. To resolve it we must seek the solution together with the other friendly countries, since trading off high volume socialist exports which assure production for technological progress is not in the interest of anyone in the long run.

8584
CSO: 2500/423

HUNGARY

PROGRAM CALLS FOR 71-72 MILLION TONS OF GRAIN IN 5 YEARS

Budapest FIGYELO in Hungarian 21 Jun 84 pp 1, 19

[Article by Istvan Kovacs: "More and More Grain"]

[Text] Although it may sound a bit profane, for a long time now it has not been the daily bread that depends on a successful harvest but the daily "feed grain" that gives greater volume and value. That is, all in all 10-12 percent of the harvested grain goes for human consumption.

In the first half of the 1960's Hungary produced 6-6.5 million fewer tons of grain on a 13 percent larger sown area than at present. Within a decade, in the second half of the 1970's, grain production doubled, and with a record production in 1982 the country approached 15 million tons. The farms increased average wheat production from 1.7 tons 20 years ago to 4.4 tons, and average corn production from 2.6 tons to 5.7-5.8 tons. In wheat, record production up to now has been 4.7 tons and in corn 6.8 tons. With these production results the country closed the gap with the countries having the most developed agriculture in the world. With its production averages for these two crops, Hungary has succeeded in taking second and third place. We have not succeeded in achieving such a rate of production development in other crop production subbranches.

In 5 Years 72 Million Tons

By studying grain production results over many years, it can be established that in one year wheat and in another year corn may give the biggest yield. During the past 20 years only several times have both types of grain yielded equally well in a given year. In recent years, on the average, only a fraction of the grain produced has been for direct food purposes, while 70-75 percent is used as feed grain.

From the viewpoint of the country's foreign exchange management, it is important that about 12-15 percent of the annual grain production is for export. This ratio has been deliberate, that is, more than 50 percent of our foreign exchange earnings in the agrarian subbranch comes from animal products produced or exported with the consumption of feed grain.

Grain production also has a very important role in the agricultural plants, its sown areas amount to 62-63 percent of the country's arable area. The gross production value of annual grain consumption is close to 50 billion forints, and through livestock breeding which uses feed grains it contributes to the production of another 80-90 billion forints worth' of production.

All this represents an income source without which the agricultural plants could not create the conditions of successful enterprise management. The primary task facing agriculture in the present plan period is the fulfillment of the grain-meat production program. According to production goals, it will be necessary to produce 71-72 million tons of grain in 5 years, which is 15 percent more than the volume harvested in the previous plan. The goals can be fulfilled only if areas sown with grain reach or exceed 2.9 million hectares and the production increases gradually in such a way that in 1985 it will exceed the present record. Parallel with this the specific yields must be raised in such a way that it will reach 5 tons per hectare for wheat in 1985 and 6 tons for corn.

Programs

In the first 3 years of the present plan period, we have produced a total of 41 million tons of grain; this is proportionally 3.2 percent behind the plan. In working out the Sixth 5-Year Plan, the establishment of a complex base for further development had to be worked out. Within this framework the intensive grain production program began in 1980; the goal was to reach corn production of 8-9 tons per hectare on large areas and wheat production of 5.5-6 tons.

The program is being realized in various phases. The first phase in 1981 covered 134,000 hectares, and justified our thinking. In the first year there was a per-hectare surplus production in wheat of 0.26 ton and in corn of 1.9 tons as compared to the base of 4.5 tons for wheat and 6.4 for corn.

In the second year the production increase per hectare was 0.56 ton for wheat and 2.56 tons for corn. The program even yielded surplus production in the drought year of 1983. The 3 years of the first phase have resulted in a surplus production of 84,000 tons of wheat and 375,000 tons of corn. On the basis of the favorable results of the first phase, we started the second phase in 1982 with 156,000 hectares. Last year, IGP [Intensive Grain Program]-III "unfurled the flag." This program includes the modern mechanization of 300,000 hectares of grain area and the building of modern storage facilities for about 800,000 tons with a value of more than 10 billion forints. Of the agricultural machine acquisitions planned for the program, we received in 1983 the machines necessary for autumn planning; corn-planting machines for the present period are on hand and the arrival of other lines of machinery and equipment is continuous.

All in all the investments made for the intensive grain production program thus far make possible the use of the latest production technology known today on 600,000 hectares of grain-sown land.

Still Profitable

Grain is still of great importance financially on agricultural farms, and because of this it is not a matter of indifference how much income surplus this subbranch can produce.

Between 1977 and 1983, wheat production costs rose from 8,500 forints per hectare to 12,000 forints (40 percent increase), while corn production costs rose from 12,000 to 18,000 forints (50 percent increase). At the same time, the average marketing price for wheat rose by 5 percent and for corn by 19 percent. The increase in the state purchase price and production yields counterbalanced to a large extent the increasing costs.

Income on 100 forints of production costs is 30 forints for wheat and varies from 20 to 30 forints for corn. This means that even under more difficult circumstances the subbranch was able to maintain its income-producing capability. In recent years various steps have been taken to improve producer incentive and stimulate purposeful area placement of grain types. In response to these measures, the production spirit has been improved, and the area distribution of grain types has developed favorably. In 1982 more than 1 billion forints of additional production premiums were paid out. Last year because of the drought the amount of paid premiums declined to 730 million, which was taken primarily by Transdanubian farms.

In 1984 the grain production premium was eliminated, or was built into the state purchase price. As a result, in 1984 the state purchase price for wheat as compared to the previous year rose by 240 forints for wheat and 200 forints for corn.

Recently it has frequently been said at various forums of debate that Hungarian agriculture is producing at too high a cost. This is said mostly in regard to foreign marketing, and in general it is summarily stated that the agrarian products are not competitive. According to the international statistics of KSH [Central Statistical Office] for 1981-1982--calculated in forints according to the rates of exchange existing at the time--the producer price for wheat in Austria was 864 forints per quintal, in France 625 forints, in Great Britain 765 forints, in the United States 613 forints, and in Hungary 339 forints. For corn, on the other hand, the producers received 695 forints in Austria, 615 forints in France, 359 forints in the United States and 321 forints in Hungary. In the countries used as examples a higher price was paid not only for grains but also for pork, beef and milk.

Attainment of the grain production goal must be helped with an increase in two-crop production, particularly where the incentive possibilities exist and there is more precipitation. Considering all these matters, we may not be charged with maximizing if in the near future we count on an area of 150,000 to 160,000 hectares of two-crop production. (The area for super-early corns may exceed 10,000 hectares.) An area of this size would be capable of about 1.5 million tons of rough fodder production and may release significant areas sown mainly with fodder.

In the past 3 years 10 types of wheat, 7 types of barley and 19 types of corn hybrids passed state qualification. Together with these newly-qualified types, there are at present 20 wheat and 72 corn-hybrids in general production. The productiveness of wheat types comes to 6-7 tons per hectare and of corn hybrids to more than 10 tons.

Who Produces and for How Much?

The ratio of the graded types and hybrids has risen continuously and dynamically in production. Considering the time requirement of the new biotechnological methods which have developed in cereal production, we cannot count in the near future on the great biological explosion which occurred in recent decades. Therefore, over the medium range the goal is the use of the best available types and hybrids on the entire sown area, the more intensive utilization of the fertility latent in types, and to this end the creation of the necessary technological conditions.

In grain production, the greatest energy and cost expenditure is required by soil cultivation. At the same time, this group of crops is the one in which, by adjusting to endowments, the most varied solutions of soil cultivation systems may be used. The structure of Hungary's arable land, the chemical reaction of the soils, and the terrain configuration relations are extremely varied, and therefore even on one farm there is the possibility or need for combined use of various versions of soil cultivation methods.

The increase thus far in the yields of grain production is closely related to the level of fertilizer use. At present on a national average per hectare 300-320 kilograms of mixed fertilizer-effective ingredients are used for wheat, 380-400 kilograms for corn.

Machinery Problems

In recent years the vanguard agricultural plants have not been content with nutrient replacement in the traditional sense and continuous crop feeding is being used more and more widely. However, all this demands that the soils be adequately full of the two most important macroelements--phosphorous and potassium. Moreover, nitrogen and the various microelements must be fed according to the requirements of the plant in the various development phases.

Although in recent years nutrient utilization in grain production has improved, this is primarily at the cost of the soil. Despite the increase in production yields, fertilizer use has stagnated, and its quality and the evenness of its application has not improved.

Resources for nutrient resupplying and crop protection are at a very backward technical level in the mechanization of grain production. We need fertilizer-spreading and plant protection machinery which is suitable for resupplying the prescribed fertilizers and herbicide amounts. The use of liquid fertilizers significantly increases the effectiveness of fertilization. At the same time, this sets the tasks for future development. We need equipment that can deliver the liquid fertilizer at any desired level in

the soils. We must also take further steps in the mechanization of grain harvesting.

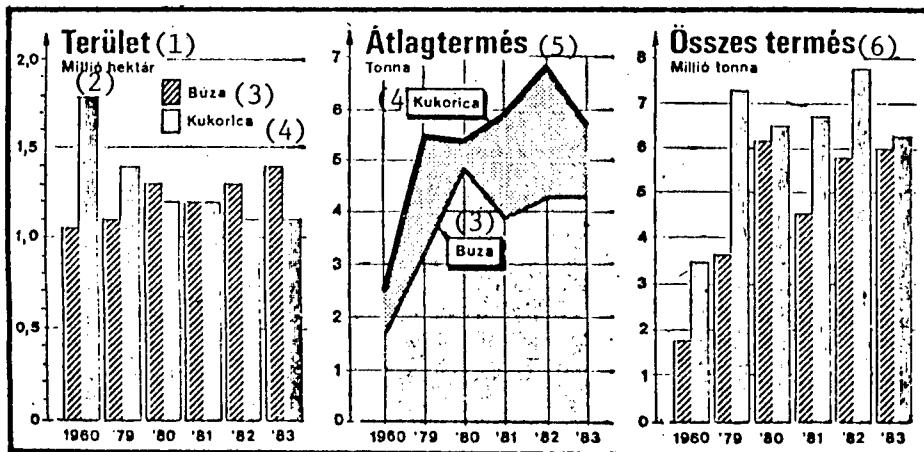
From year to year there is an increase in the number of those farms which attain a per hectare production of over 5 tons in wheat and over 7-8 tons in corn. On these farms there is a need for combines which can handle 12-16 kilograms per second. That is, we need a combine capacity which will make it possible to harvest within 4 to 5 days the grain type--including corn--which belongs to a given maturity group.

Guaranteed Subsidy

In harvesting grains up to recent years, one-round harvesting of the grain was characteristic, and for corn artificial drying was uniform. In the framework of the energy savings program, we worked out the storage technology for the drying of damp corn and the crushed harvesting of the corn cob and the entire plant. The wider use of these technologies is in progress, but the development work must be continued. It is very important that in the case of corn we develop such harvesting, processing and storage technologies as are in harmony with consumption.

Storage losses after harvesting may reduce the volume of usable grain. According to MEM [Ministry of Agriculture and Food Industry] surveys, a physical and content loss of 8-10 percent is frequent. We need to change the prevailing outlook in the mechanization of the storage areas, and we must also make room for the expansion of cold storage. A 30-percent budgetary subsidy can also be used for building new storage places and for the modernization of existing capacities. Storage investments also share in other subsidies; for example, they are exempt from the investment fee and the construction tax, and moreover the investor needs to obligate only 10 percent in reserves from internal resources instead of the usual 20 percent. The purchase of metal silos and modern machinery and equipment necessary for storage in the framework of international competitive negotiations is also promoted with the use of foreign credits.

[see graph, next page]



Key:

1. Area
2. Million hectares
3. Wheat
4. Corn
5. Average production
6. Total production
7. Million tons

6691

CSO: 2500/421

HUNGARY

BRIEFS

NEW PESTICIDE PLANT-- On Friday, the modern and large capacity Dorog plant of the Kobanya Pharmaceutical Factory opened its doors. Ferenc Havasi, member of the MSZMP Political Committee and Secretary of the Central Committee, and Minister of Industry, Laszlo Kapolyi, took part in the ceremony. Edit Varga, managing director of the Kobanya Pharmaceutical Factory mentioned in her inaugural speech, that the Dorog plant was set up under optimal conditions for the large-scale production of various pesticides. The Hungarian-Soviet agricultural chemicals agreement also called for this since the Soviet Union purchases more and more pesticides from Hungarian industry every year. The plant in Dorog can produce 2,000 tons of pesticides annually in four varieties. Each type can be used efficiently in industrial scale agricultural production too. [Excerpts] [Budapest NEPSZABADSAG in Hungarian 7 Jul 84 p 4]

BIOCHEMICAL COOPERATION--Cooperation between the Reanal Fine Chemical Factory and the Soviet Biolar NPO Scientific Production Unit has reached a new height with the signing of a 5 year cooperation agreement and protocol. Reanal, which does a very significant portion of our domestic biochemical research, has had links to the Soviet partner for fourteen years. Since then, the shared research has resulted in significant achievements in the fields of amino acids and peptide synthesis. The recent protocol, signed by Zamah Vlagyimir Petrovics, director of the Soviet Biolar, and Ferenc Pribek, director of the Hungarian Reanal, secures newer possibilities for Soviet-Hungarian scientific-technical cooperation. [Text] [Budapest NEPSZABADSAG in Hungarian 7 Jul 84 p 21]

CSO: 2500/480

PLANNING OFFICIAL DEFENDS INFLATION CONTROL POLICIES

Warsaw ZYCIE WARSZAWY in Polish 16-17 Jun 84 p 3

[Interview with Jerzy Gwiazdzinski, deputy chairman of the Council of Ministers' Planning Commission, by Andrzej Zmuda]

[Text] [Question] The severe money-market imbalance and price movement occurring in our country is often referred to in common talk as the "Polish inflation." Can we talk about the characteristic features of inflation in our country?

[Answer] It is difficult to speak about "Polish inflation" because inflation processes are similar everywhere. Speaking simply, they occur when there is a surplus of money over the supply of goods and services. This relationship is simple: the total sum of money on the market must equal the total of supply. If more and more money appears on the market and the amount of goods does not change or grows insignificantly, the price becomes the regulating factor. When, as a result of administrative intervention, prices do not rise officially, we are dealing with an apparent "suspended" inflation. This results in lines in front of stores and a lack of goods, and forces the population to put money away. Such a "suspended" inflation is particularly destructive because it demoralizes society and limits the functioning of the system of incentives.

[Question] We know that an anti-inflationary government program is being realized now. Could you summarize for us its main directions?

[Answer] To put it very briefly, they consist of:
--increasing the supply of goods and services,
--increasing the participation of enterprises in fighting the sources of inflation by lowering production costs and increasing the efficiency of management and profitability,
--multifaceted savings actions in all areas of the economy,
--distributing more justly the costs of fighting inflation through appropriate differentiation of the financial burdens of various groups of society,
--implementing the policy of shaping prices of market goods and services according to the principles defined in the anti-inflationary program and to the progress of its realization.

[Question] What parts of from this broad program have been realized? One hears rather skeptical opinions. . .

[Answer] I do not share this skepticism. First of all, in 1983 the supply of goods to the market was increased by 7 percent and the amount of services by about 6 percent. If this rate can be maintained in the current year and the next year, we would almost achieve the projected in the program growth of market supplies and services.

The results obtained in light industry are worthy of consideration. As a result of the government decisions of July 1983 and consequently a better utilization of production capacities, the market production exceeded the primary plans of the enterprises by over 70 billion zlotys. This was achieved by making about 800 contracts on increasing the market production and granting enterprises the right to increase the wage funds by an additional 5.6 billion zlotys (exempt from the PFAZ taxes).

Some of the actions foreseen in the anti-inflationary program, such as the side production of market goods, the undertaking of small market production by scientific-research institutions, the reopening of closed plants, the forming of the so called enterprise economic teams, undertaking additional production outside of normal working hours, have also brought certain--although insufficient--effects. These "unconventional" sources brought last year about 5 billion zlotys in market production.

Secondly, a number of moves regarding savings apart from the realization of a separate savings program in the economy were undertaken and realized. In 1983 decisions were made increasing the state budget revenues or decreasing its expenses. In total, in the past year the deficit of the state budget was reduced to 25 billion zlotys as compared with the 151 billion zlotys foreseen by the budget estimate.

Thirdly, control over revenues from the nonsocialized economy was tightened, in order to achieve a juster distribution of the burden of the effects of crisis on various groups of society and counteract more effectively the negative phenomena resulting from a lack of market balance. The taxes on the non-agricultural economy were also raised. Interest rates on bank loans for the population were raised and the range of taxes and payments was broadened. As a result, taxes and payments from the population in 1983 amounted to about 120 billion zlotys, that is, about 36 billion zlotys more than foreseen by the Central Yearly Plan passed before the preparation of the anti-inflationary program. I would like to stress here most strongly that in comparison with other countries, the burden of direct taxes and payments on the population of our country has been and remains very low and amounts to a mere 2.8 percent of its income.

[Question] Nevertheless, in the opinion of many people the current tax policy is not very effective. For example, the leveling tax for many groups, including the workers, is anti-incentive. . .

[Answer] In its present shape the principles of the leveling tax have been in force since August 1983; they were established in the conditions of a lower

rate of growth of the nominal wages. The growth of wages has, however, been higher than planned and it turned out that with regard to wages exceeding 35 thousand a month, the threshold of taxes and the scale of progression became excessive. Recently the upper limit of untaxed wages was raised and the scale of payments softened. Thus the "anti-incentive" action of the leveling tax has been visibly blunted.

[Question] And what, in your opinion, is not working out in the realization of the anti-inflationary program?

[Answer] Most of all, it has not been possible to increase sufficiently the participation of enterprises in combating the sources of inflation. The program of counteracting inflation contains a number of principles the implementation of which was to lead to a more efficient management. Particularly important among them is the policy of the "tough money," consisting among other things in inducing enterprises to devoting a considerable part of their profits to the development needs and technical innovations. This policy was also to encourage enterprises to lower their own costs, improve quality and other efficiency indices, improve the employment situation, and so on.

The more difficult the financial situation of particular enterprises is, the greater the progress in modernization ought to be; it is a truth which we do not always wish to accept. Technical progress, after all, always caused such situations.

On the other hand, in the past year the financial situation of enterprises was very good, not because of production results alone.

In the past year socialized enterprises obtained jointly the total profit of about 1,290 billion zlotys, which was reduced by the income tax of 660 billion zlotys. This tax was 14 percent lower than in 1982 because of the introduction of a less restrictive tax scale and a rather broad application of various reductions. Thus the part of the profits assigned for distribution amounted to 630 billion zlotys and was 117 billion higher than in 1982. After deducting 63 billion for the reserve fund and 67 billion for the Vocational Activation Fund, the remaining 500 billion zlotys were for the enterprises' use for the purposes of development, social and housing needs, and awards for the work force. If one adds to it the funds which the enterprises were left with from the year 1982 plus the amortization allowances, and deduct the payments for investment loans, the total sum of the funds at enterprises disposal amounted to about 700 billion zlotys, while in 1982 enterprises had 450 billion zlotys at their disposal.

The financial situation of enterprises was therefore easy, too much so, and they had no need to strain themselves and think of increasing their profits. This is a general evaluation, of course. In reality, there were enterprises which were in financial difficulties through no fault of their own, and many others which felt no financial constraints.

[Question] Is, therefore, the tax policy toward enterprises correct? Is not the money still excessively "easy"? Are there not too many reliefs, when at the same time there is a lack of incentives for efficient production among efficient workers?

[Answer] In the plan for the year 1984 the range of the reliefs was essentially reduced; moreover, which branches and enterprises were to receive them was established beforehand. The excessive permissiveness is not a result of regulations but a lack of consistency in following them. In the current year, the National Bank of Poland [Narodowy Bank Polski] set down very specific rules of conduct toward enterprises which lose their credit eligibility because of poor management efficiency. This ought to "toughen" money considerably.

[Question] Do you think that in this situation the economic policy and the reform mechanisms are too severe or too permissive?

[Answer] The assumptions of this policy are correct. Many of the causes ought to be found in the practice, in the societal-sociological sphere and in the remnants of the old system in which everything could be justified; also, in the erroneous conviction of some of the founding organs that the giving of aid and the temporary overlooking of mismanagement is the price for executing programs that stress quantity, as, for example, housing construction. Here is an example: a construction enterprise that had been protected submitted a bill calculating over 45,000 zlotys per square meter. . . In this situation, programs oriented toward quantity--due to a lack of funds--also will have to undergo a reduction.

[Question] One hears the accusation, voiced by the trade unions, among others, that the burden of fighting inflation is being placed on the shoulders of those who are the least well off. Is this charge justified?

[Answer] It is a groundless view and in fact the opposite is true. Precisely in the period of the crisis, the economically weakest social groups are being protected. Perhaps more true is the opposite opinion, that the protective umbrella has been spread out too broadly.

[Question] The impression one receives is that in spite of everything, the government is unable to restore the money-market balance. Notwithstanding the assumptions, the rate of the growth of incomes remains too high--which leads to the raising of prices. Higher prices put pressure on wages--and the spiral of inflation is unwinding. . . What next, then?

[Answer] I do not agree that the inflationary spiral is unwinding. The rate of inflation in relation to the year 1982 has been reduced fourfold. It can be said that the spiral is "winding down," from 100 percent in 1982 to about 25 percent in 1983. Last year there was no decline in living conditions, on the contrary, there has been some improvement. In some spheres there has taken place a strengthening of the economic balance.

Thus, though the degree of inflation reduction is not exactly what we have planned, generally speaking the anti-inflationary program has brought concrete results. In the current year actions have been undertaken to maintain the inflation rate within the framework of the plan. Among other things, the freeze in supply prices and a similar policy of retail prices which basically makes it difficult for enterprises to gain funds by hiking prices. The investment front is also being put in order and loans for them are harder to get.

[Question] You have mentioned investments. Their excessive development was one of the major causes of the present crisis and inflation. Recently, one can again notice their uncontrolled growth. Is the government completely helpless in this respect?

[Answer] Indeed, the pressure for investments is considerable and we continue to deal with the disease of deconcentration. The government, however, is no longer helpless. . .

In March of the current year the Government Presidium on the motion of the Planning Commission made the decisions counteracting irregularities in the sphere of investments. It is too early for an evaluation, but the first results are already visible. Only a few decisions have been made on starting investments estimated at over 500 million zlotys. Confronted with an excessive development front of construction, we are facing another verification of the investments under construction. The point is not to stop the construction, but to limit its material scope.

Since the electromachine industry failed to fulfill its export plan, the pressure to buy and install machines and equipment from abroad can be seen. Again, there are apparently too many available funds in enterprises. It is possible that in a number of cases it will be necessary to raise the tax on the profits and also to increase the part of the amortization paid into the budget.

In sum, we have a better diagnosis of the disease than last year and if the medication proves ineffective, it will be necessary for social and anti-inflationary interests to reach for more radical measures. Banks have already received a recommendation to give new investment loans only for restoration and modernization, in the areas of preferential treatment such as the market and the exports, with realization cycles of up to 2 years and with the participation of construction-assembly works not exceeding 25 percent.

[Question] Let us return to the price policy. Does the government see raising prices as the only tool for fighting inflation? This is a question which our readers often ask.

[Answer] The government has never looked at it as the only tool and does not see it as such now, something that is best shown by actions on behalf of increasing market production. One cannot, however, close one's eyes to reality. Unless there is an outflow of money from the market in quantities unforeseen by the plan, a movement of prices will be necessary for balancing

the market. Otherwise we will be dealing with the "suspended" inflation which I spoke about at the beginning, and the prices will rise all the same, only the difference will be pocketed by speculators. Suppressing the raising of prices--I repeat once more--requires an increase in the market production, of good quality and of lower costs. This must be accompanied by a moderate growth of wages, lower than work efficiency. These are old truths, but we know from practice how difficult it is to achieve this state.

[Question] After all we have heard from you, Mister Minister, should we be expecting a verification of the government anti-inflationary program?

[Answer] No. The program established the directions of action which continue to be valid. Concrete actions will be incorporated in next year's plan and in the plan for the years 1986-1990. One of the main economic goals, not only for the nearest term, is to restore the market balance of the economy in general and the market economy above all.

[Question] In conclusion, the question: what is the main obstacle in fighting inflation? What are the barriers other than the economic ones? Will we ever reach one digit inflation?

[Answer] In our society there function many myths and delusions. Among them is the faith in the effectiveness of freezing prices, in general rationing, etc. Often we do not want to know that only a greater supply of goods will slow inflation down. Everybody agrees that tougher financial rules must be applied, but provided they do not concern. . . one's own "specific" enterprise.

We have great needs, yet the national income to be distributed can increase yearly by 2.5 to 3 percent. . . We must therefore continuously make choices and satisfy the most urgent needs (not all) in order. Succumbing to every need and every pressure weakens anti-inflationary activity.

We have, as the first secretary of the PZPR Central Committee, Wojciech Jaruzelski, stressed at a meeting with trade union members, "... enormous possibilities present in our society and reserves in our economy". . .

If we utilize these reserves, we certainly have a chance to come down to one-digit inflation by 1986. With regard to the 1983 program, it will mean only one year of delay.

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POLAND

POLICY OPTIONS MAPPED OUT FOR PRICES, INCOMES IN 1984-85

Warsaw ZYCIE GOSPODARCZE in Polish No 27, 1 Jul 84 pp 1,6

[Article by Grzegorz Jedrzejczak, Marek Misiak and Kazimierz Ryc: "No Sudden Shocks"; material enclosed between slantlines printed in boldface]

[Text] Decisions and pressures of an immediate nature that may cause tendencies that sometimes are out of line with the assumptions of long-term economic policy have a significant impact on the current situation. As a rule, the counter-acting of these tendencies means added costs and, for the most part, delays in implementing long-term goals. Eventually, prices will have to increase sharply in order to neutralize the excessive increase in individual monetary earnings, or the growth rate of income will have to increase due to the increased pressure emanating from overly high living costs.

In our analysis of these issues, we have aimed towards selecting that scenario of economic policy that would lead to the effective abatement of the price-earnings spiral, at the same time bolstering the incentive system and continuing the economic reform.*

Our preferred scenarios propose gradual, not overly radical changes, since we believe that one of the reasons for the weakness of economic policy until now has been its setting of goals that are too difficult to implement. At the same time, in our opinion they are scenarios that engender hopes for a relatively smooth surmounting of market instability, without the need to resort to sudden changes. Scenarios characterized by the growth of dangers that lead to the need for such "shocks" in economic policy are of a cautionary nature.

In the assumptions of the 3-year socioeconomic plan, it was assumed that in 1985 the economy would succeed in attaining a market situation approximating that of the pre-crisis period. This goal was one of the major tasks laid out in the plan. Its achievement was to become the point of departure for the strategies of 1986-1990. However, given the circumstances and the method of

*The sponsor of the research in this area is the Institute for the Domestic Market and Consumption and the Price Research Institute.

allocating funds, as well as the accepted economic mechanisms, unfortunately, it will be practically impossible to implement this task by the proposed deadline.* While the progress made in the economy from 1983 to 1985 is considerable, unfortunately, it is insufficient to implement this task in full due to the degree of market breakdown in previous years and the specific internal and external conditions.

These circumstances are expressed in the weaker growth of market production compared with overall production and in the slower abatement of the price-wages spiral compared with the assumptions of the plan. This spiral has resulted in continued growth attitudes in the sphere of earnings alongside society's resistance to price increases. This resistance likewise may be expressed in growth attitudes.

The buildup of these negative tendencies with regard to supply and demand is understandable in the social and political strata as a result of the decline in the average living standard of the population. This buildup likewise is impacted on by the release of crisis pressures through an increase in earnings, including emoluments in particular, but also through an increase in procurement prices and social services. However, this does not alter the fact that in the economic sphere, this type of earnings and price race, divorced from the sphere of the real economy, is distant from market stability.

Let us then examine the possibilities and the limitations in approaching market stability from the supply and demand sides and at the related goals that are feasible to set up and implement in 1985.

The Year 1984

The most accurate knowledge possible on the subject of the base year of the plan (in this case 1984) is a fundamental condition for defining the situation of the plan year (1985). In March 1984, we presented** possible scenarios for the development of the market situation for this year. Five months later, however, the field of maneuver has narrowed considerably, resulting in the probable scenarios described in column 1 of tables 1, 2, 3 and 4. The titles of the scenarios and their figures define quite clearly their basic characteristics.

An assessment of the base plan year, however, requires a more extensive look. It demands a grasp of continuing and changing trends, including the formation of states and processes carried over into the plan year, e.g., the effects of price changes made during the base year transferred to the following year.

Generally speaking, the assessment of the base year was not the strong point of past planning methods. On the numerical level, the plan generally did not make an accurate estimate of "hidden" phenomena, e.g., earnings growth. Obviously, this distorted the exit data, which in turn affected the envisaged planning ratios for the following year.

*We treated this subject earlier: compare ZYCIE GOSPODARCZE, No 43, 1982 and No 44, 1982.

**ZYCIE GOSPODARCZE, No 12, 1984.

On the second level--that of a particular philosophy of the economy--in general, a fairly great qualitative independence from previous years was adopted for the plan. Thus, sometimes the plan assumptions showed considerable restraint in earnings and prices, a jump in export growth and the like. It is clear that there exist in the economy phenomena of the buildup of quantitative changes that lead to qualitative consequences. As a rule, however, these are long-term processes. Over the short term, compensatory processes are of great importance--improvement or decline in one sphere overlaps contrasting trends in other fields.

/Deliveries and the sale of goods and services/--besides market determinants, supply phenomena have at least four equivalent determinants in the activation of manpower, materials procurement, the foreign trade situation and weather conditions. After many fluctuations of the growth rate of supply in particular months from January to May 1984, many signs indicate that the situation will stabilize at a growth level of volume averaging 4 to 5 percent on the yearly scale. At the same time, the methodological problems of the setting of comparative prices will oblige great caution in interpreting the preliminary and approximate estimates of this volume.

A better or worse turn of the market situation can be corrected, in our opinion, by the foregoing index of ±1 point. A negative correction can emanate from extreme situations: the entry of wages and prices into the inflationary spiral, but also a too severely and mechanically executed policy of the deflationary restraint of earnings and prices (through the reverse corrections of some economic mechanisms). A positive correction would result from obtaining a moderate incentives link between wages and production on the level of the entire economy. The market may be neutral from the viewpoint of the growth of supply under the terms of compromise solutions in the sphere of earnings and price formation. In conclusion, the growth of the volume of deliveries and sale, both in 1984 and 1985, may shape up between the intervals of 3 and 6 percent. Of course, this assumes that there will be neither an unfavorable nor an especially favorable combination of circumstances in the fundamental conditions of supply.

/Individual monetary earnings/--the major growth factor here is circular: from prices to the wages of the four basic sectors to the earnings of other groups of the population. Taking temporal delays into account, we may simplify things to assume that the typical growth structure is based on an increase in income equal to the increase in prices (cost of living) in the previous year. A policy of restraint may consist of "drawing back" the growth rate by 1/4 to 1/3, i.e., from 23 percent growth to 15 percent growth, from 15 percent growth to 11 percent growth and the like. The growth and restraint scenarios described between these intervals mark out the upper and lower boundaries of the potential development of phenomena in 1985.

Thus far, 1984 results indicate the following scenarios in terms of earnings: growth (5.3 trillion zlotys, a growth of 23 percent over 1983), compromise (5.2 trillion zlotys, a growth of 21 percent over 1983) and restraint (5.1 trillion zlotys, a growth of 19 percent). What is important, the growth rate of earnings in 1984 and its distribution over time fixes in part the growth rate of 1985 earnings.

A results estimate--the carrying over of the wage increase from the first half of 1984 to 1985--can be approximated at about 5 percent (based on the January to May data). This means that a wage freeze in June 1984 still would find the average 1985 emolument 5 percent greater than the 1984 emolument. The wage principles in effect (together with other legal regulations in the sphere of incentives and finances) demonstrate that the growth in emoluments during the June to December 1984 period may even be somewhat stronger than during the same period last year. This leads to the conclusion that 1984 emoluments may exceed 1983 figures by about 20 percent and the effect of 1984 wage increases transferred to 1985 may even exceed 10 percent.

/Prices and the money supply/--These determine the premises and type of policy, the balancing of market supply and demand. Two "pure" models may be distinguished here--open price inflation and the growth of the individual money supply.

We may characterize 1984 as a year of more moderate price increases by comparison with the 2 previous years. In 1983, the basic price increase package was ushered in at the beginning of the year, causing their considerable impact upon the price index of that year and a minimal carry-over effect (about 4 percent to 1984). In 1984, the price increase of basic food items in the first quarter was quite modest in its financial effects.

Under these conditions, in order to fulfill the growth scenario indexes of individual earnings (5.3 trillion zlotys, a growth of 23 percent), they would have to be balanced out by the so-called growth scenario of high prices, with price increases of 15 percent during the second half of 1984. On the scale of all of 1984, this would mean a price increase of 24 percent over 1983; the effect of 1984 price increases carried over into 1985 would be about 10 percent.

Therefore, the high price scenario seems highly unlikely during 1984 for reasons other than economic. The alternative scenario of market equilibrium (with earnings reaching 5.3 trillion zlotys) via a forced growth of the money supply is feasible over the short term, but leads to the negative phenomenon of consumer queues over the long term whose unfavorable aspects need not be described. It should be noted, however, that the significance of the high growth rate of the money supply assumed in this scenario (of up to 500 billion zlotys!) is not that awesome when applied to the scale of earnings or expenditures.

Two scenarios remain: restraint with regard to monetary earnings (a growth of 5.1 trillion zlotys, or 19 percent) and compromise (5.2 trillion zlotys, a growth of 21 percent).

The use of the restraint scenario may be unfavorable for the economic reform, as well as for the putting into practice of new, more motivating principles of remuneration. This is especially the case since, for reasons similar to those discussed in conjunction with the growth scenarios, the scenario of restraint in 1984 would be a scenario of restraint only for individual earnings, and the price increase would not be used to any great extent as an instrument of market equilibrium. Thus, this would be a scenario of individual earnings restraint and consumer queues.

/On the principle that it eliminates the "worse" variants, the compromise scenario would be the preferred variant. It combines a limited increase in earnings and prices (in this scenario, prices increase by 18 percent) and continues the economic reform and a reasonable incentives reform of the wage system./

Under this scenario, individual earnings amount to 5.2 trillion zlotys in 1984, for an increase of about 21 percent.

The Year 1985

The point of departure described was the basis for the preparation and the analysis of several dozen 1985 scenarios, both the most likely and the less desirable. Tables 1-4 synthesize the basic scenarios; in the following, we comment on the scenarios that are the most interesting for various reasons.

/At high 1984 prices/ As we have stated, market equilibrium through increased prices, while maintaining the increase in the money supply envisaged in the plan, is highly unlikely (table 1, column 2). If such a situation does occur, however, it is worthwhile to look at the scenario of radical restraint (table 1, column 7) as an attractive alternative for 1985. If we keep in mind the approximately 10 percent carryover effect of the wage and price increase from 1984, their growth would be minimal in 1985. Practically speaking, this would mean a wage and price freeze (growth would be tied in with changes in the structure of production and employment). This would mean an obvious benefit in the form of "quieting" the price and wage spiral. An added benefit would be the equalization of current flows (the lack of an increased money supply); this would improve the market situation considerably (see the last index). Generally, it is worthwhile to note the benefit of such an alternate battling of inflation--/"firing away" at it through high prices in one year and radical restraint in the following year./ Obviously we are aware of the difficulty of implementing such a policy.

The other scenarios, at high current year prices, are not overly attractive. It is dangerous to continue the growth and high prices policy (table 2, column 3). The high price index related to such a policy exacerbates the destructive tendencies in the economy related to inflation.

/With longer queues in 1984/ The growth and consumer queues scenario demands special attention, due to the high likelihood of its occurrence in 1984 (table 2, column 2).

As we have written, this variant puts off problems but does not resolve them. As table 2, columns 3-7 show, /this scenario creates no bases for any constructive alternative in 1985./ In every potential scenario, it leads to the inadmissible worsening of one of the specific indexes of macroeconomic assessment of the market situation. The gradual elimination of disproportions via compromise is a weak opportunity (table 2, column 5).

/With restraint in earnings and consumer queues in 1984/ It is even more likely that this scenario will occur in 1984 than the previously discussed one.

From the viewpoint of current market equilibrium, this variant is a /"lesser evil" than the previous scenario./ In it the lines are somewhat shorter. Its danger lies in the fact that it may be attended by considerable restrictions in incentives systems and by the retarding of the economic reform/(the reverse correction of some of its parameters, the excessive stiffening of the rules of price setting and the like).

We cannot exclude the fact, however, that under the impact of favorable factors: a relatively good harvest in agriculture, somewhat increased deliveries of imported market production producer goods and consumer goods, the volume of the sale of goods and services will be from 5 to 6 percent higher in 1984 than it was in 1983. Prices likewise may increase somewhat more than 15 percent, partly due to changes in the assortment structure of deliveries for market procurement. Then the money supply would increase in 1984 by only about 200 billion zlotys, and perhaps less. If the level of individual earnings were maintained at a level in keeping with the restraint scenario, i.e., at about 5.1 trillion zlotys, the signs of improvement in the market situation would be obvious.

/With the 1984 compromise scenario/ As expected, the implementation of the compromise route in 1984 (table 4, column 2) offers the best chances for 1985. These chances emanate not merely from its envisaged restraint in earnings and in the effect of prices, but likewise from the opportunities its creates for a new type of economic policy. In general, this scenario would /tie in an increase in earnings with the growth of production./ A comparison of the neutral compromise scenario with the incentives compromise scenario (table 4, columns 3 and 4) shows that we present very moderate requirements for the effects of incentives--a 15 percent earnings increase is to yield a 5 percent increase of the volume of sales, i.e., an added 1 percent. The direct result is the reduction of the price index by about 1 point. However, the long-term effects would be more important: the constructive tying-in of earnings and production volume.

The obtaining of the incentives effect in a production increase likewise may be used to increase the level of reserves--an improvement in the index of rotating reserves. We realize that the complex problem of motivation cannot be reduced to macroscale market dependencies. However, we must remember the principle that if we cannot limit significantly the growth rate of earnings, then at least we will increase production.

This route is preferable to the others because a somewhat more active policy in the incentives sphere could be accompanied by similar results in the field of market equilibrium. The rationalization of economic reform mechanisms could be based more extensively on "continuing" the previous economic policy. In this way, the repetition of too sudden turns in this field as well could be avoided.

It should be noted that the /so-called compromise scenario route/ recommended by us /should not be understood as the route of "easy" compromise./ It demands that many different complex conditions be fulfilled.

Some examples of these conditions follow. Economic mechanisms must be used to aid in the relatively rapid shift of employment from enterprises where manpower is not being fully utilized to enterprises where problems in filling all positions are causing great economic losses. With regard to the spheres of materials turnover, investments and foreign trade, an analysis must be made of their present impact on the increase in deliveries of consumer goods to the marketplace and also on the increase in individual earnings. Likewise, budgetary policy ought to be subjected to a similar current analysis.

The foregoing scenarios lead to yet another conclusion, i.e., that it is a mistake for economic policy to be based solely on the development of particular market variables, e.g., prices, monetary resources and others. Here we propose the selection of that route that, while perhaps not bringing a very rapid and radical improvement in any of these variables separately, affords an opportunity for the gradual, step by step, movement over a somewhat longer period in this same direction, for all these variables at once.

/Thus, we propose an economic policy that proportionately emphasizes all basic market aspects (despite the various current pressures) and favors consistently continuation of the economic reform and the development of the incentives systems related to the reform. In conjunction with this, we do not predict major short-term results. The compromise scenario will not yield complete motivational results in 1984. However, the consistent utilization of such a policy over 2 or 3 years ought to set up conditions enabling the continuity of sale and an improved flow of consumer goods to the market, without the need for rationing and restricted inflation indexes (below 10 percent)./

Table 1. The Year 1985 Assuming the Growth and High Prices Scenario in 1984
(in trillions of zlotys)

Flow of funds, indexes	1984		1985				
			Scenario				
	Growth & high prices	Growth & high prices	Growth & queues	Compromise --neutral	Restraint of earnings	Restraint & queues	Restraint & high prices
1 Earnings (prev.yr.=100)	2 5.3(123)	3 6.5(123)	4 6.5(123)	5 6.3(119)	6 6.1(115)	6 6.1(115)	7
Volume of sale of goods & services (prev.yr's prices =100)	3.80(103)	4.87(103)	4.87(103)	4.92(104)	4.87(103)	4.87(103)	
Increase in funds (prev.yr.=100)	0.2(68)	0.2(100)	0.5(250)	0.3(150)	0.4(100)	0(0)	
Money supply at yr's end;prev.yr.=100	1.94(111)	2.14(110)	2.44(126)	2.24(115)	2.34(121)	1.94(100)	
Price index (prev.yr. =100)	124	120	114	113	108	116	
Index of real earnings (prev.yr.=100)	100	102	108	105	106	99	
Ratio of money supply to expenditures	0.41	0.37	0.44	0.40	0.41	0.34	

Table 2. The Year 1985 Assuming the Growth and Queues Scenario in 1984
(in trillions of zlotys)

Flow of funds, indexes	1984		1985				
	Growth & queues		Growth & high pri- ces	Growth & queues	Compromise --neutral	Restraint of earnings & queues	Restraint & high prices
1	2	3	4	5	6	7	
Earnings (prev.yr.=100)	5.3(123)	6.1(115)	6.1(115)	6(113)	5.9(111)	5.9(111)	
Vol. of sale of goods&services (prev.yr'prices =100)	3.8(103)	4.56(103)	4.56(103)	4.61(104)	4.56(103)	4.56(103)	
Increase in funds (prev.yr.=100)	0.5(171)	0.2(40)	0.5(100)	0.3(60)	0.4(80)	0(0)	
Money supply at yr.'s end;prev.yr.=100	2.24(120)	2.44(109)	2.74(122)	2.54(113)	2.64(109)	2.24(100)	
Price index (prev.yr.=100)	117	120	111	115	111	120	
Index of real earnings (prev.yr.=100)	105	96	103	99	100	93	
Ratio of money supply to expenditures	0.51	0.45	0.54	0.48	0.48	0.38	

Table 3. The Year 1985 Assuming the Restraint of Earnings and Queues Scenario
in 1984 (in trillions of zlotys)

Flow of funds, indexes	1984		1985				
	Restraint of earnings & queues		Growth & high pri- ces	Growth & queues	Compromise --neutral	Restraint of earnings & queues	Restraint & high prices
1	2	3	4	5	6	7	
Earnings (prev.yr.=100)	5.1(119)	5.87(115)	5.87(115)	5.76(113)	5.66(111)	5.66(111)	
Vol. of sale of goods & services (prev.yr.'s prices =100)	3.8(103)	4.49(103)	4.49(103)	4.53(104)	4.49(103)	4.49(103)	
Increase in funds (prev.yr.=100)	0.4(135)	0.2(50)	0.5(120)	0.3(75)	0.4(100)	0(0)	
Money supply at yr.'s end;prev.yr.=100	2.14(123)	2.24(103)	2.64(124)	2.44(124)	2.54(119)	2.14(100)	
Price index (prev.yr.=100)	115	117	111	119	108	118	
Index of real earnings (prev.yr.=100)	103	92	103	95	103	94	
Ratio of money supply to expenditures	0.46	0.38	0.45	0.42	0.45	0.38	

Table 4. The Year 1985 Assuming the Compromise Scenario--Neutral for 1984
(in trillions of zlotys)

<u>Flow of funds, indexes</u>	1984		1985		
	Compromise --neutral	Compromise --neutral	Compromise --incentives	Earnings restraint	Radical restraint
1	2	3	4	5	6
Earnings (prev.yr.=100)	5.2(121)	6.0(115)	6.0(115)	5.9(114)	5.9(114)
Vol. of sale of goods & services (prev.yr.'s prices =100)	3.84(104)	4.7(104)	4.75(105)	4.46(103)	4.66(103)
Increase in funds (prev.yr.=100)	0.3(102)	0.3(100)	0.3(100)	0.4(67)	0 (0)
Money supply at yr.'s end; prev.yr.=100	2.04(117)	2.34(115)	2.34(115)	2.44	2.04(100)
Price index (prev.yr.=100)	113	112	111	113	113
Index of real earnings (prev.yr.=100)	103	103	104	101	97
Ratio of money supply to expenditures	0.45	0.44	0.44	0.44	0.35

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